



Chairman's Statement

1. BUSINESS REVIEW

Despite strong competition in the year 2001 in the domestic, as well as the international, markets for PCs and PC peripheral products and HDDs and related products, the Group achieved satisfactory results as a result of the effort and dedication of its staff.

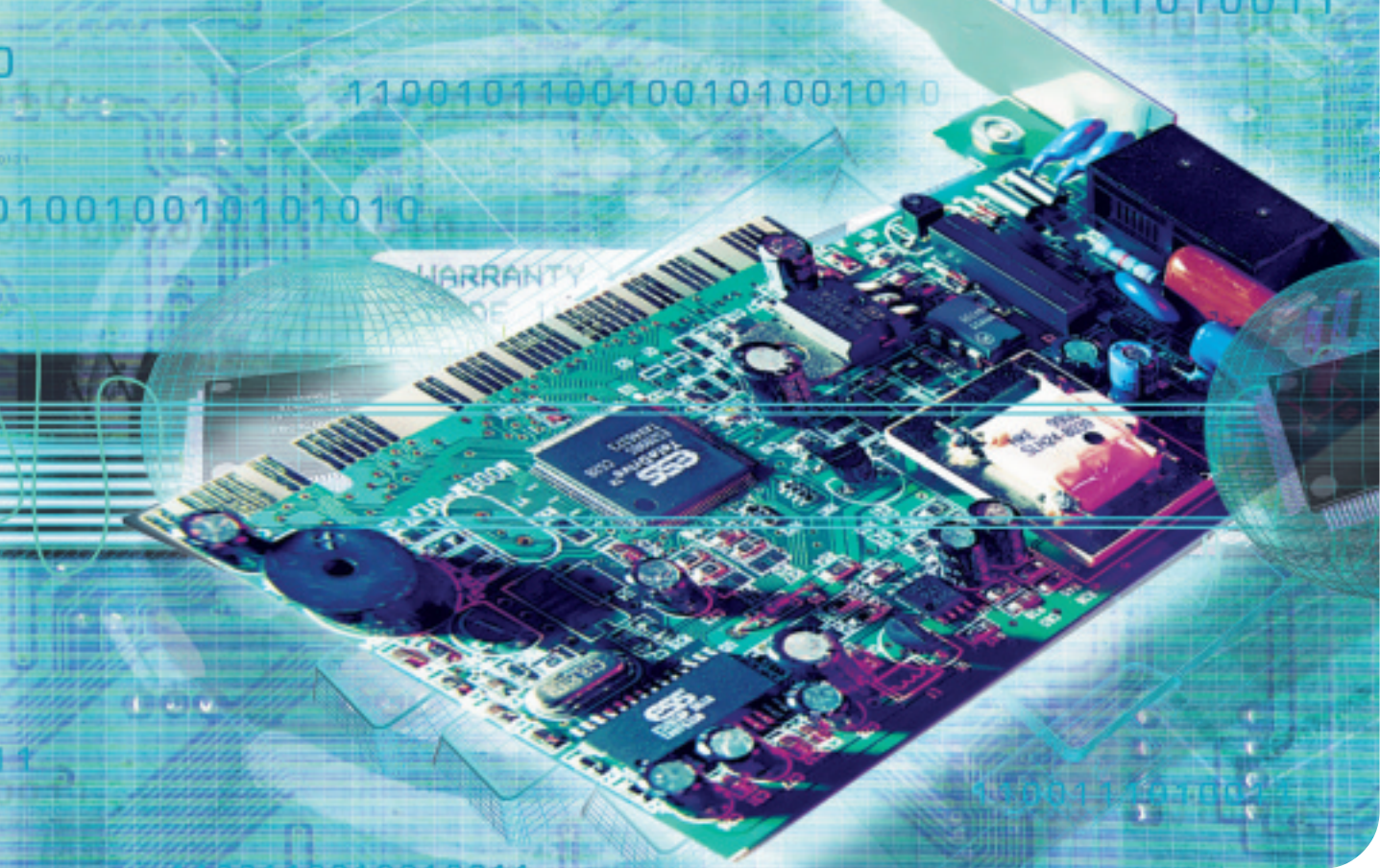
The turnover and net loss of the Group for the year 2001 amounted to RMB5,815,187,000 and RMB135,586,000, representing a decrease of 8.9% and a decrease of 158.9%, respectively.

PC & PC Peripheral Products

During the year 2001, China Great Wall Computer (Shenzhen) Co., Ltd. ("CGC"), a 60.47% owned subsidiary of the Company, launched a series of home computers such as the Golden Great Wall 6028, and commercial computers such as the Junjie series as well as other products including the 899 two-way servers, the Zhixiang 5650 and the Zhixiang 3650 department-level servers. In addition to the launching of the G7000 and G5000 series of

notebook computers, CGC also entered into an agreement with the American Microsoft Company requiring the Group's Golden Great Wall home computer products to be completely pre-installed with Windows XP Chinese systems as from December 2001. At the same time, the Golden Great Wall Windows XP "Compulsory Start-Up Kit" software program was also launched. CGC then entered into a strategic alliance of cooperation with the Korean Hansol Electronic Inc. to jointly manufacture middle to top end monitors carrying the joint brand of "Golden Great Wall-Hansol" and to commence exporting such products on a wholesale basis. Having established its mobile communication business department, CGC also sought to enter the mobile communications industry during the year 2001. Furthermore, CGC also developed and launched a series of PDA products called "Palm King", which has been listed on top of the "Zhuangguan Village Consumerists' Trusted Brands."

During the year 2001, the sale of CGC PCs experienced a steep decline, with a sales volume of



200,000 sets, representing a 48% decrease as compared to the corresponding period last year. This was mainly attributed to a weak market for the IT

However, the growth trend in respect of CGC monitors and CGC power supply packs continued, with a respective increase in sales volume as compared to the corresponding period last year. Also, the construction of CGC's Shiyan production base was completed and officially placed into production.



HDD & Related Products

During the year 2001, given that CGC HDD products were still in pre-production preparations and in the investment stage, these products were affected by problems relating to model alterations and quality control simultaneously. CGC suffered a loss in relation to these products. However, given its advanced HDD technology and modern management, the Group has established a good foundation for the further development of HDD products.

industry, increasing competition, internal organisational restructuring and a management which lacked precision due to business adjustments.

The production and sales of HDD heads, the main product of the Company's 55.96% owned subsidiary Shenzhen Kaifa Technology Co., Ltd. ("Kaifa"),

increased 7% and 6.58% respectively as compared to last year. However, the gross profits for this product decreased, largely because of the global economic depression and the severe drop in the product's price. Kaifa has invested much money for the purpose of technology improvement for this product. In order to improve the product quality and production efficiency, Kaifa introduced an automated production equipment which was developed independently by Kaifa. Kaifa is known as an "Outstanding Supplier" by clients, in terms of product quality, worldwide. Kaifa managed effectively the imbalance of the production of HDD heads and the production volume of HDD heads in the fourth quarter of the year 2001 and attained historical level being the aggregate of the production volume of the previous half year. Meanwhile its automated production equipment is starting to be exported and use in other industries such as the fiber optical electronic industry.

Kaifa has made efforts to modernise its management. Kaifa succeeded in implementing the Enterprise Resource Planning (ERP) system last year and passed a re-assessment for ISO14001. It also obtained the upgraded certification of version 2000 ISO9001. Management costs of Kaifa decreased tremendously for the year 2001 with the joint efforts of all of the employees of Kaifa. Furthermore, Kaifa's online supervision for bonded factories was officially connected, and in turn greatly enhancing its efficiency in carrying out customs declarations.

As a core component to HDD, substrates produced by Shenzhen Kaifa Magnetic Recording Co., Ltd. ("Kaifa Magnetics"), a 51% owned subsidiary of the Company, realised a turnover of RMB288,000,000 and a profit of RMB32,000,000. This product managed to turn losses into profits for

the Group. In a global market with fierce competition, Kaifa Magnetics continued to improve its production technology. While improving the technology of its existing products, Kaifa Magnetics tried to reinforce its research and development of new products; strengthen management; implement overall cost controls; increase efforts in market development; and continue to increase its market share rate and competitive edge, in turn winning the trust of customers.

Broadband Network

During the year 2001, subject to the double pressures imposed by policy and capital, Great Wall Broadband Network Service Co., Ltd. ("GWBNS"), of which 70% of its shareholding is held by the Company, succeeded in adjusting its operation targets and switched its focus from construction to operation. As one of the companies having the



largest market share in the broadband connection industry domestically and which is highly regarded by its competitors, GWBNS established a solid

foundation for its future development. However, in consideration of its scale of construction, its rate of construction, the immense amount of capital required for this area and the fact that it was still in the investment stage with no precision management in place, GWBNS suffered a loss of RMB192,000,000. In turn, creating a negative impact on the Group's profitability. As at the end of the year 2001, GWBNS had 16,000,000 contractual users. The number of users for completed projects grew from 97,000 at the beginning of the year 2001 to 1,620,000 at the end of the year 2001, and the number of connected users grew from 5,105 to 870,000 and online users currently reached 47,700.

Network terminals, fiber optical and electronic products

Kaifa endeavours to develop network terminals and fiber optical products on the basis of improving

years of research and development. However, it has not produce any profit for Kaifa or the Group so far due to Kaifa's limited productive capability. During the month of March 2001, Kaifa outperformed its internationally renowned multinationals competitors in the bid for the remote controlled meters project, and obtained an order worthed US\$153,000,000 for its remote controlled meters. Kaifa expects to provide these products in 2002. Additionally, the remote controlled meters and other series of meters have attracted the attention of domestic companies. In the meantime, Kaifa, being one of the standard setter for technical standards of cash terminals, has shown its comparative advantages both in terms of technology and market expansion. However, due to the weakened global economy, the market stayed stagnant and in turn Kaifa failed to accomplish its set target.

Management and R&D

Two of the Company's principal subsidiaries, CGC and Kaifa, commenced the implementation of the ERP system (Enterprise Resource Plan) – the operation of the ERP system has improved the Group's operational efficiency and management. The Group's National 863 Project – "Research on standardisation of fiber optic amplifiers technology II" and "Research on systematisation and standardisation of optical isolators technology" has been approved by the State Science Commission and National 863 Project Committee and obtained Grade A+ (Grade Excellent). The Group was also recognised by the State Science Commission as "an industrial base for high-technology R&D plan".

2. PROSPECTS IN 2002

the quality and service for its magnetic products. Kaifa's network terminal products has entered into the domestic and international markets after several

Looking into 2002, the Group will continue to face intense competition in the IT industry. With lower product prices, the Group must confront the



challenges of the Group's inability for its investment projects to generate anticipated profits. Nevertheless, the Group will continue to pay close attention to its internal management and focus on the reduction of its production costs. While endeavouring to do its best in the execution of its existing projects, the Group will, at the same time, nurture new sources of profitability. Taking advantage of the opportunity created by China's accession into the World Trade Organisation, the Group will work hard to develop its international and domestic market. Principal strategies will include the following:

In relation to its PCs and PC peripheral products, CGC will maintain the development strategies of "using networks as the core to develop, create and add value to services"; uphold its business motto of "customers always come first"; restructure and support the managerial staff of the various business departments; adjust product structures; reinforce market development and promotional marketing; and strengthen cost controls.

Kaifa will strengthen its research and development of the next generation of magnetic heads and new installation engineering technology for spring arms as well as strengthen its development of fully automatic HGA and HAS production lines. At the same time, Kaifa will strive to exploit new projects such as original equipment manufacturing in order to fully utilise its productive and managerial advantages in this area. Also Kaifa aims to make full use of the new PRC policies and people's understanding of network terminal products in order to seek the best market entering point to rapidly establish and expand its market share. In addition, by enforcing its "6-sigma managerial system" and establishing a modern management system with characteristic of Chinese culture and international

standards will facilitate Kaifa to further improve its competitiveness.

Shenzhen Yituo Technology Co., Ltd. ("Yituo Technology"), a subsidiary of the Company, signed a co-operation agreement with IBM to produce by the original equipment manufacturing, IBM Deskstar120GXP table-top 3.5 inch and 40GB hard discs. IBM will be responsible for selling and launching the products onto the international market under the IBM brand. Based on an intellectual property agreement signed with IBM, Yituo Technology will develop and sell this type of hard discs under its own brand. Uniting the advanced technologies of IBM with the comparative advantage of the Group in terms of costs, the co-operation will enhance the competitiveness of the Group's hard discs in the market.



Kaifa Magnetics will further improve its production engineering, raise its equipment inspection and testing standards, accelerate the technological improvement of its existing products

and, at the same time, reinforce its research and development of its new products.

GWBNS will focus on ten major PRC cities for its business. Existing equity will be reactivated and management reinforced, with a view to rapidly increase the subscription rate to its services to ensure more earnings in 2002.

3. INVESTMENT

During the year 2001, the construction of the Company's research and development base in the Technology Park was completed.

Establishment of the Beijing Changtong United Broadband Technology Co., Ltd.

During the year 2001, Beijing ChangTong United Broadband Technology Co., Ltd. ("United Broadband") was jointly established between Nuoding (China) Investment Co., Ltd., Great Wall Computer Software & System Incorporation, Ltd. (the Company's partially owned subsidiary) and the Company. With a registered capital of RMB25,000,000, the parties contributed RMB17,500,000, RMB5,000,000 and RMB2,500,000 respectively to United Broadband and hence respectively held 70%, 20% and 10% of equity interest of the joint venture. United Broadband will bring out the comparative advantages of each party in respect of resources, operations and markets, develop application software designated for broadband community services and provide broadband community users with high-quality software and information services. Following the rapid development of broadband networks in the PRC, it is anticipated that demands from broadband users for various services in this industry will increase continuously and hence market prospects for these services are extremely good.

Establishment an American HDD Research and Development Centre

The Company and the Excelstor Group Ltd. ("Excelstor") jointly invested US\$30,000,000 in the establishment of a HDD Research and Development Centre (the "Centre") in America. With a registered capital of US\$25,000,000, the Company and Excelstor contributed US\$15,000,000 and US\$10,000,000 respectively and hence respectively holds 60% and 40% of the Centre's equity interest.

Kaifa's investment in the establishment of the O-Net Communications Ltd.

Kaifa Technology (H.K.), Ltd. ("Kaifa HK"), a wholly owned subsidiary of Kaifa, and Mandarin IT Fund jointly invested in the establishment of the O-Net Communications Ltd ("O-Net"). With a registered capital of HK\$150,000,000, the parties contributed HK\$110,000,000 and HK\$40,000,000 respectively to the joint venture, hence each respectively holds 73% and 20% of the equity interest thereof. In February 2002, due to the participation of new shareholders, the equity ratio held by Kaifa HK decreased from 73% to 46%. O-Net is mainly engaged in the research and development, production, buying and selling of optical crystals, opto-combiners and optical transmission products as well as the provision of consultant services relating to such products.

Furthermore, Kaifa HK invested approximately US\$12 million into Excelstor and therefore holds 20% equity interest thereof.

The details of the above-mentioned matters were published in the Stocks and Securities of China, the Securities Times and the Shanghai Stocks and Securities on 28 February 2002.

CGC's establishment of the Jinshidun Technology & Electronic (Shanghai) Co., Ltd.

CGC and the American Jinshidun Company jointly invested in the establishment of the Jinshidun Technology & Electronic (Shanghai) Co., Ltd ("Jinshidun"). With a registered capital of US\$10,000,000, the investment ratio of the two parties is 20% and 80% respectively. Jinshidun is mainly engaged in the production and sale of computer memory stick. It is expected that investment recovery for this joint venture will be achieved within two years.

CGC to invest in the establishment of the Jinchangke Plant situated at the Beijing Xinggang Industrial Park

CGC intends to invest RMB80,000,000 in the construction of a plant with an available area of 25,000 square-meters for use in the Beijing Xinggang Industrial Park. CGC is entitled to use 23,000 square meters of land free of charge for 50 years. Also, CGC signed a plant-rental agreement with Jinchangke Company. The Agreement also stipulated

that the investment would be recovered through the rental payment within eleven years.

CGC to control Beijing Dongfang Dingxing Network Communications Technology Co., Ltd.

CGC contributed RMB16,340,000 (with RMB15,800,000 in cash and RMB540,000 in intangible assets) to acquire 71.67% of the equity interest of Beijing Dongfang Dingxing Network Communications Technology Co., Ltd., whose name was later changed to "Beijing Great Wall-Dingxing Network Communications Technology Co., Ltd." ("Great Wall-Dingxing") thereafter. Great Wall-Dingxing is mainly engaged in the development, production and sale of network communications equipment.

4. ACKNOWLEDGEMENT

On behalf of the board of directors of the Company, I take this opportunity to express my heartfelt thanks to the staff of the Group for their dedication in the past year and to all the shareholders for their support and concern for the Company.

Wang Zhi
Chairman

11 April, 2002

