

The board of directors of the Company (the "Board of Directors") is pleased to present the Directors' Report (the "Report") together with the audited financial statements of the Group for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the development, manufacture, sale and R&D of PCs, PC peripheral products, HDDs, HDD related products, broadband network services, network transmission and add-on products.

SEGMENT INFORMATION

Analysis of the Group's turnover and contribution to profit from operations for the year ended 31 December 2001 is set out by principal activity and geographical market in note 5 to the financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

The Group's single largest supplier and the Group's top five largest suppliers accounted for approximately 16% and 41%, respectively, of the total purchases of the Group for the year ended 31 December 2001. The Group's single largest customer and the Group's top five largest consumers accounted for 26% and 61%, respectively, of the total turnover of the Group for the year ended 31 December 2001.

As far as the directors of the Company (the "Directors") are aware, none of the Directors or any of their associates, within the meaning of the Rules Governing the Listing of the Securities on the HKSE (the "Listing Rules"), or those shareholders which to the knowledge of the Directors own more than 5% of the share capital of the Company have an interest in any of the five largest customers of the Group for the year ended 31 December 2001.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2001 are set out in the consolidated income statement on page 29.

DIVIDEND

The Board of Directors did not recommend the payment of any final dividends for the year ended 31 December 2001.

RESERVES

Details of movements during the year ended 31 December 2001 in the reserves of the Group and the Company are set out in note 26 to the financial statements.

FINANCIAL SUMMARY

A summary of the results of the Group for the past five financial years and a summary of the assets and liabilities for the past three years are set out on page 90.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year ended 31 December 2001 in the property, plant and equipment of the Group and the Company are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are as follows:

	As at 31 December 2001 Number of shares	As at 1 January 2001 Number of shares
State-owned Legal Person Shares	743,870,000	743,870,000
Overseas Listed Foreign Shares (H Shares)	453,872,000	453,872,000
Total	1,197,742,000	1,197,742,000

There were no changes in the share capital of the Company during the year ended 31 December 2001 and the period from 1 January 2002 up to the date of this Annual Report.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2000, the register of substantial shareholders maintained under Section 16(1) of the Securities (Disclosure of Interests) Ordinance (Chapter 396) (the "SDIO") showed that, the following shareholder had an interest of 10% or more in the issued share capital of the Company:

Name of shareholder	Class of shares	Number of Shares held	Percentage of the total issued share capital
China Great Wall Computer Group Company	State-owned Legal Person shares	743,870,000	62.11%

Save as disclosed above, the Company was not notified of any other persons who had an interest of 10% or more of the issued share capital of the Company as at 31 December 2001.

BORROWINGS AND INTEREST CAPITALISED

Details of borrowings of the Group are set out in notes 23 and 24 to the financial statements.

Interest capitalised by the Group during the year ended 31 December 2001 in respect of construction in progress amounted to RMB39,037,000.

DESIGNATED DEPOSITS AND OVERDUE TIME DEPOSITS

During the year ended 31 December 2001, the Company did not have any designated deposits with any financing institutions nor had any overdue time deposits.

SUBSIDIARIES AND ASSOCIATES

Details of the Company's principal subsidiaries and associates as at 31 December 2001 are set out in notes 16 and 17, respectively, to the financial statements.

USE OF PROCEEDS FROM THE INITIAL H SHARE OFFER

The proceeds from the initial public offer of H Shares (the "IPO"), and the use of these proceeds in 2000, have been disclosed in the annual results announcement and annual report for the year 2000. At the beginning of 2001, the remaining balance of these proceeds was RMB367,000,000, of which RMB88,000,000 was invested in the construction of a new factory plant and a science research office building.

As at 31 December 2001, the balance of the proceeds from the IPO was approximately RMB279,000,000 and was deposited as short term deposits with maturities of less than one year, to be transferred to the Group for the purpose of its working capital in 2002.

PURCHASE, SALE AND REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY AND/OR ITS SUBSIDIARIES

During the year 2001, neither the Company nor its subsidiaries purchased, sold or redeemed any of the listed securities of the Company and/or its subsidiaries.

DIRECTORS

For the year ended 31 December 2001 and up to the date of this Report, the Directors and their biography are as follows:

Executive Directors

Mr. Wang Zhi, aged 60, is chairman and president of the Company. He joined the Great Wall Group in 1985, and was one of its founders. Before joining the Great Wall Group, Mr. Wang was a deputy director of the Computer Bureau under the Ministry of Electronics Industry. He graduated from Harbin Military Academy of Science with a bachelor degree in wireless communication. Mr. Wang has over 36 years' experience in the information technology industry and now he also is the honorary president of China Computer Industry Association.

Mr. Wang Zhirong, aged 62, is an executive director of the Company. He joined the Great Wall Group in 1986. Prior to joining the Great Wall Group, Mr. Wang was manager at the Computer Bureau of the Ministry of Electronics Industry. He graduated from China Electronics Technology University with a bachelor degree in computer science. He holds the title of senior engineer and, as he is an expert, Mr. Wang has been granted a special allowance from the State, Mr. Wang has over 37 years' experience in the information technology industry. Mr. Wang was previously also the vice president of the Company, but he resigned from that position as of 12 April 2002.

Mr. Lu Ming, aged 52, is an executive director of the Company. He is responsible for production technology development and marketing activities of the Company. He joined the Great Wall Group in 1986. Mr. Lu graduated from the Chinese Academy of Science with a master degree in computer science and completed post-graduate studies at the High Energy Physics Research Institute in Hamburg, Germany. Mr. Lu has over 21 years' experience in the information technology industry. Mr. Lu was previously also the vice president of the Company, but he resigned from that position as of 12 April 2002.

Mr. Tam Man Chi, aged 53, is executive director and vice president of the Company. He is responsible for the Company's marketing strategy and technology development. Mr. Tam has 33 years' management experience of the international electronics industry.

Ms. Huang Rongfang, aged 56, is executive director of the Company. Ms. Huang graduated from Beijing University and holds the title of senior accountant. Before joining the Great Wall Group, she was the deputy chief officer of the Finance Bureau of China Electronic Industry General Company and the chief financial officer of CEC. Ms. Huang has over 33 years' experience in the information technology.

Mr. Gao Kegin, aged 34, became an executive director of the Company as from 12 April 2002. Mr. Gao Kegin graduated from the Beijing Aeronautics & Astronautics University. In 1990, Mr. Gao worked at the Ministry of Aeronautics & Astronautics, after which he worked for China Hewlett Parkard as its marketing manager. Later, he went on to work for Intel China Ltd. as its business development manager of E-commerce and its senior marketing manager. In 2001, Mr. Gao joined Great Wall Computer Software & System INC. Ltd as its general manager and remains so today.

Independent Non-executive Directors

Mr. Li Yanda, aged 64, and holds a bachelor degree in automated control systems. Mr. Li is Dean of the School of Information Technology at Qinghua University, PRC, and also is a member of the China Academy of Science, and a member of the Academic Degree Committee of the State Council.

Mr. Chang Zhenming, aged 45, he is the chairman and deputy general manager of CITIC Securities Co., Ltd. He holds a bachelor degree in Japanese from the Beijing No. 2 Foreign Language Institute and an MBA degree from the New York Insurance Institute.

Mr. Li Xiaoru, aged 44. He is the managing director of Hong Kong Construction (Holdings) Ltd. Mr. Li holds a Juris Doctor degree from New York University and a bachelor degree in English literature from Columbia University. Mr. Li has many years' experience in practicing law in the U.S. and Hong Kong. Mr. Li is qualified to practice law in the State of California U.S. and in the PRC.

Mr. Kilin To, aged 58, became an independent non-executive director of the Company as of 12 April 2002. Mr. To received his master degree in Electrical Engineering from Princeton University in 1969 and a MBA degree from the Wharton School in 1979. After which, Mr. To worked at Philips Electronics in the Netherlands, RCA Corporation, AT&T Corporation and Digital Equipment Corporation in the areas of research and development, manufacturing and marketing. Mr. To then served as the president of Citicorp Investments Inc., and was a vice president at Citicorp Venture Capital Ltd. until 1995. Thereafter, Mr. To founded the Sycamore Management Corporation, where he presently serves as its president.

SUPERVISORS

Ms. Wu Alping, aged 45, graduated from Hangzhou Electronics Industry Institute majoring in finance and accounting. Ms. Wu joined the Great Wall Group in 1986. She is the manager of the finance department of the Great Wall Group and is a director of Hunan Computer Company Limited, an associated company of the Great Wall Group. Ms. Wu was a supervisor of the Company. She ceased to be a supervisor of the Company. She ceased to be a supervisor of the Company as from 12 April 2002.

Mr. Guan Zhizhan, aged 57, is supervisor of the Company. He joined the Great Wall Group in 1993 as financial controller of Kaifa Technology. He graduated from Hangzhou Wireless Industry Management Institute in 1965. Mr. Guan has over 36 years' experience in accounting and finance.

Mr. Di Xiaofeng, aged 40, is supervisor of the Company. Mr. Di has been chairman of the supervisory committee of Shanghai Yongsheng Company Limited since January 1999. He graduated from the Research Institute of the China Academy of Social Science with a master degree in law and is a qualified lawyer in the PRC.

COMPANY SECRETARY

Ms. Chen Yanming, aged 39, is holder of a MBA degree from Murdoch University, Perth, Australia. Joining the Great Wall Group in 1993, she has served as the deputy director of the Kalifa Technology, the administrative director of RNIF Magnetics. Authorised Representative and the secretary of the Board as well as Administration Director of the Company. She is also currently the company secretary and the director of the secretariat of Kaifa Technology. She holds a "Certificate of Board Secretary Training" jointly issued by the Hong Kong Secretary Society and Shenzhen Stock Exchange in November 1997. Ms. Chen has 10 years' experience in business administration.

SENIOR MANAGEMENT

Ms. Zeng Yanming, aged 55, is general manager of the business development of the Company. She also heads the technology department, quality department, asset management department and marketing department of the Great Wall Group. She joined the Great Wall Group in 1986. Ms. Zeng graduated from the Beijing Postal and Telecommunication College with a bachelor degree in radio engineering.

Mr. Sam Leung, aged 49, is general manager of the production department of the Company. Mr. Leung graduated from Stanford University with a master degree in electronic engineering in 1975 and was a lecturer at the Hong Kong Polytechnic University (Department of Electronic Engineering).

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming shareholders' annual general meeting, to be held on 20 June 2002, has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into, or existed of any time, during the year ended 31 December 2001.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Save as disclosed in note 37 to the financial statements, no contracts of significance to which the Company or any of its subsidiaries, its holding company or fellow subsidiaries was a party and in which a Director or a supervisor of the Company (the "Supervisor") had a material interest, whether directly or indirectly, subsisted at the end of or at any time during, the year ended 31 December 2001.

THE PURCHASE AND SALE OF SHARES BY THE DIRECTORS AND SUPERVISORS

During the year ended 31 December 2001, the Company did not grant any rights to any Directors or Supervisors and their spouses or children under 18 years of age to subscribe for equity interests in the Company. The interests of the Directors and Supervisors in the shares of the Company or its associated corporation are set out in the section headed "Directors' and Supervisors' Interests in Shares" below.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31 December 2001, the interests of the Directors and Supervisors in the shares of the associated corporations of the Company were as follows:

1. Personal Interests

Name of Director	Number of Shares held	Approximate percentage of total issued share capital
Mr. Wang Zhi	95,400 employee shares of CGC	0.02%
	214,207 employee shares of Kaifa	0.03%
Mr. Wang Zhirong	63,600 employee shares of CGC	0.01%
	35,699 employee shares of Kaifa	0.005%
Mr. Lu Ming	63,600 employee shares of CGC	0.01%
Mr. Tam Man Chi	714,025 employee shares of Kaifa	0.097%
Ms. Huang Rongfang	63,600 employee shares of CGC	0.01%
	278,512 assigned Legal Person Shares of Kaifa	0.037%

2. Corporate Interests

Name of director	Number of shares held	Approximate percentage
Mr. Tam Man Chi	68,952,000 Legal Person Shares of Kaifa (Note 1)	9.4%

Note:

1. These shares are held by Broadata (H.K.) Limited. Flash Bright Investment Limited held 61.76% interest in Broadata (H.K.) Limited. Mr. Tam and his spouse holds 100% interest in Flash Bright Investment Limited.

Save as disclosed above, as at 31 December 2001, none of the Directors or Supervisors or their associates had any interests in any securities of the Company or any of its associated corporations (as defined in the SDIO), within the meaning of the SDIO, as recorded in the registrar maintained by the Company pursuant to Section 29 of the SDIO or otherwise notified to the Company and the HKSE according to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' remuneration and the five highest paid individuals of the Company during the year 2001 are set out in note 10 to the financial statements.

CONNECTED TRANSACTIONS

During the year 2001, the Group entered into the following transactions:

(a) Ultimate holding company and fellow subsidiaries other than the Group

	2001 RMB'000
Sales of products	57,181
Interest expenses paid	4,908
Trademark licensing fee paid	1,798
Purchase of components and parts	5,366
Guarantees given by ultimate holding company	1,040,000
Guarantees given by a fellow subsidiary	50,000

(b) Associates

	2001 RMB'000
Rental income received	19,723
Processing fee paid	283
Purchase of components and parts	8,068
Finance lease charge paid	2,146

(c) Group of companies with common directors of the Company

	2001 RMB'000
Sales of products	276,162
Purchase of products	102,890

The above transactions were carried out at market price or, where no market price was available, at cost plus a percentage profit mark-up.

The independent non-executive directors of the Company confirm that the transactions were in the ordinary course of business of the Group and the agreement governing such transactions was entered into under normal commercial terms.

IMPORTANT ISSUES

Material litigation and arbitration

As referred to in the Note 21(a) to the Financial Statements, there was a court action between the Company's subsidiary CGC, Sichuan Yingtong Computer System Co., Ltd. (四川銀通電腦系統有限公司) ("Yingtong") and Chengdu Commercial Bank ("Chengdu Bank"), whereby The People's Supreme Court ruled (recorded as "(2001)民二終字第21號") that the verdict made by the People's High Court of Sichuan Province (recorded as "(2000)川經初字第17號") was legally effective, and that Yingtong shall pay CGC the amount stipulated in 15 accounts receivables as well as the interest accrued thereon. It was also held that Chengdu Bank be responsible for the related payment obligations. An application (recorded as "(2001)執字第21號") has been made to the People's High Court of Sichuan Province for the enforcement of the said judgment. The People's High Court of Sichuan Province has taken certain measures and has served a "Notice to Coercive Execution" on both of Yingtong and Chengdu Bank. The execution is now in progress. The above-mentioned proceedings has been disclosed in the Company's 2000 Annual Report and 2001 Interim Report.

Chengdu Bank then appealed to the People's High Court of Sichuan Province for a re-hearing. According to the verdict (recorded as "(2001)川經監字第53號"), the case awaited a re-hearing by an reorganized jury and therefore the original verdict was stayed during the period of the re-hearing. On 27 February 2002, the People's High Court of Sichuan Province re-heard the case and decided to adjourn the re-hearing later since Chengdu Bank could not provide the court with any new evidence against the original verdict.

In relation to the dispute of goods payment between CGC, Yingtong and Chengdu Bank, the People's Intermediate Court of Chengdu City held that the debt of RMB2,000,000 shall be repaid to CGC. CGC then promptly appealed for a higher amount, but the People's High Court of Sichuan Province upheld the original verdict. CGC then made objection with the People's High Censorate of Sichuan as well as appealed to the People's Supreme Court. This appeal is currently in progress.

Save as disclosed above, the Group was not involved in any other material litigations and arbitrations during the year 2001.

PRE-EMPTIVE RIGHTS

According to the articles and association of the Company and the laws of the PRC, there are no provisions for pre-emptive rights requiring the Company to offer new shares to the existing shareholders in proportion to their shareholdings.

RETIREMENT BENEFIT SCHEMES FOR EMPLOYEES

Details of the retirement benefit schemes for employees of the Group are set out in notes 7 and 8 to the financial statements.

AUDIT COMMITTEE

In compliance with the additional requirements of HKSE in its Code of Best Practice, an audit committee of the Company (the "Audit Committee") was established in December 1999. There are three members in the Audit Committee, namely Wang Zhi, Li Xiao Ru and Chang Zhenming. By reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants, the principal duties of the Audit Committee include the review of the Company's financial reporting process, internal controls and the results of the Group. During the year ended 31 December 2001, the Audit Committee held two meetings, with both meetings held on 9 April 2002, whereby the Audit Committee reviewed and commented on the Company's draft annual and interim reports.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company was not, at any time during the year 2001, in compliance with the Code of Best Practice set out in Appendix 14 of the Listing Rules.

POST BALANCE SHEET EVENTS

Details of the post balance sheet events are as set out in note 36 to the financial statements.

AUDITORS

Messrs. Deloitte Touche Tohmatsu have acted as international auditors of the Company since its incorporation.

A resolution will be submitted at the next shareholders' annual general meeting to be held on 20 June 2002 to re-appoint them as auditors of the Company.

By order of the Board of Directors

Wang Zhi

Chairman

Shenzhen, PRC

11 April 2002