

1. GENERAL

The Company was established in the People's Republic of China (the "PRC") as a joint stock company on 20 March 1998. Pursuant to a resolution passed at the general meeting held on 30 December 1999 to change the Company into a foreign investment joint stock limited company, the Company obtained approval from the Ministry of Foreign Trade and Economic Corporation of the PRC on 4 September 2000. On 22 December 2000, the Company obtained a business registration certificate from the State Administration of Industry and Commerce of the PRC to carry on business as a sino-foreign joint venture joint stock limited company.

Its ultimate holding company is China Great Wall Computer Group Company, a state-owned enterprise established in the PRC.

The Company's shares are listed on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") on 5 August 1999.

Pursuant to a resolution passed by the Board of Directors on 2 February 2001, the Company adopted the Chinese name of 長城科技股份有限公司.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the development, manufacture and sale of computer and related products including hardware and software products.

The Company also acts as an investment holding company.

The principal activities of its principal subsidiaries are set out in note 16.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/PRIOR YEAR ADJUSTMENT

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants ("HKSA"). Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/PRIOR YEAR ADJUSTMENT (Continued)

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

Dividends proposed or declared after the balance sheet date

In accordance with SSAP 9 (Revised) "Events after the balance sheet date", dividend payables proposed or declared by the Company after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component of equity. The dividend receivables proposed or declared by the subsidiaries of the Company after the balance sheet date are not recognised as income at the balance sheet date. These changes in accounting policy has been applied retrospectively, resulting in a prior year adjustment.

The consolidated balance sheet as at 31 December 2000 has been restated in this respect in these financial statements, resulting in an increase in the Group's dividend reserve and decrease in dividend payables as at 31 December 2000 by approximately RMB35,932,000 in respect of the proposed final dividend for the year ended 31 December 2000 (as at 31 December 1999 by approximately RMB37,729,000 in respect of the proposed final dividend for the year ended 31 December 1999).

The balance sheet of the Company as at 31 December 2000 has also been restated resulting in an decrease in the Group's dividend income and dividend receivables as at 31 December 2000 by approximately RMB48,231,000 in respect of the proposed final dividend of certain subsidiaries of the Company for the year ended 31 December 2000 (as at 31 December 1999 by approximately RMB49,269,000 in respect of the proposed final dividend of certain subsidiaries of the Company for the year ended 31 December 1999).

Leases

SSAP 14 (Revised) "Leases" has introduced some amendments to the basis of accounting for finance and operating leases, and to the disclosures specified for the Group's leasing arrangements. These changes have not had any material effect on the results for the current or prior accounting periods and accordingly, no prior year adjustment had been required. Disclosures for all of the Group's leasing arrangements have been modified so as to comply with the requirements of the revised SSAP. Comparative amounts have been restated in order to achieve a consistent presentation.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/PRIOR YEAR ADJUSTMENT (Continued)

Segment reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment reporting". Segment disclosures for the year ended 31 December 2000 have been amended so that they are presented on a consistent basis.

Goodwill

In the current year, the Group has adopted SSAP 30 "Business combinations" and has elected not to restate goodwill or negative goodwill previously eliminated against or credited, respectively, to reserves. Accordingly, goodwill arising on acquisition prior to 1 January 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisition prior to 1 January 2001 will be credited to the income statement at the time of disposal of the relevant subsidiary or associate.

Goodwill arising on acquisition after 1 January 2001 is capitalised and amortised over its estimated useful life on a straight line basis. Negative goodwill arising on acquisition after 1 January 2001 is presented as a deduction from assets and will be released to the income statement based on an analysis of the circumstances from which the balance resulted.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong ("HK GAAP"). The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Where the results of the year or the net assets in the financial statements of the PRC subsidiaries, which are prepared under PRC accounting standards, are materially different from that prepared under HK GAAP, adjustments are made to bring the amounts reported by the PRC subsidiaries in line with HK GAAP for the purposes of consolidation.

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill arising on acquisition prior to 1 January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisition after 1 January 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of a subsidiary is presented separately in the balance sheet.

On disposal of a subsidiary or an associate the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition prior to 1 January 2001 continues to be held in reserves and will be credited to the income statement at the time of disposal of the relevant subsidiary or associate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Negative goodwill (Continued)

Negative goodwill arising on acquisition after 1 January 2001 is presented as deduction from assets and will be released to the income statement based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to the income statement in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of a subsidiary is presented separately in the balance sheet as a deduction from assets.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment losses.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates less any identified impairment loss.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments are classified as held-to-maturity securities, investment securities and other investments.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in securities (Continued)

Debt securities that the Group intends to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect the irrecoverable amounts. The annual amortisation of any discount or premium arising on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

Construction in progress

Construction in progress represents buildings, machinery and projects under construction or installation and is stated at cost less accumulated impairment losses. Cost comprises direct and other related costs, including interest expenses, attributable to the construction activities. Upon completion of construction, the relevant costs are transferred to appropriate categories of property, plant and equipment when they are capable of producing saleable output on a commercial basis.

No depreciation or amortisation is provided on construction in progress until the asset is completed and put into productive use.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less depreciation and amortisation and accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Other than the staff quarters, land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Staff quarters are stated at cost less depreciation and amortisation and accumulated impairment loss.

Depreciation and amortisation are provided to write off the cost or valuation of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual values, using the straight line method, at the following rates per annum:

Land and buildings	Over the term of the lease
Land use rights	Over the term of the land use rights
Plant, machinery and equipment	2 to 11 years
Motor vehicles	5 to 6 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the relevant leases.

The gain or loss arising on disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined as no impairment loss had been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that other SSAP.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

The Company and its subsidiaries in the PRC maintain their books and records in Renminbi ("RMB"). Transactions denominated in currencies other than RMB are translated into RMB at the rates quoted by the People's Bank of China ("PBOC") ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than RMB are re-translated into RMB at the applicable PBOC rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation the financial statements of overseas operations which are denominated in currencies other than RMB are translated at the rates ruling on the balance sheet date. Exchange differences arising on consolidation are dealt with in reserves.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed to the customers.

Rental income is recognised on a straight line basis over the terms of the relevant leases.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rates applicable.

Technical service income is recognised when services are provided.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Retirement benefit schemes

The retirement benefit costs charged to the income statement represents the Group's contributions payable in respect of the current year to the retirement funds scheme managed by local social security bureau in accordance with the PRC government regulations and the defined contribution scheme of a subsidiary in Hong Kong.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development cost

Research costs are recognised as an expense in the period in which they are incurred.

Expenditure on development is charged to the income statement in the year in which it is incurred except where a clearly-defined project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity. Such development costs are capitalised as an intangible asset and amortised on a straight-line basis over the life of the project from the date of commencement of commercial operation, which is on average five years.

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals receivable and payable are credited and charged to the income statement, respectively, on a straight line basis over the relevant lease term.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

4. TURNOVER

Turnover represents the invoiced value of goods sold by the Group to outside customers and is stated net of trade discounts, returns and sales taxes and technical services income received and receivable during the year, are as follows:

	2001 RMB'000	2000 RMB'000
Sales of goods	5,801,783	6,369,608
Technical services income	13,404	15,155
	5,815,187	6,384,763

5. BUSINESS AND GEOGRAPHICAL SEGMENT

Business segment

For management purposes, the Group is currently organised into four main operating segments, manufacture and sale of personal computer ("PC") and PC peripheral products, hard disk drives ("HDD") and related products, network transmission and add-on products and provision of broadband networks services.

These divisions are the basis on which the Group reports its primary segment information.

5. BUSINESS AND GEOGRAPHICAL SEGMENT (Continued)

Business segment (Continued)

Segment information about these businesses is presented below:

For the year ended 31 December 2001							
	PC and PC peripheral products RMB'000	HDD and related products RMB'000	Network transmission and add-on products RMB'000	Provision of broadband network services RMB'000	Others RMB'000	Eliminations* RMB'000	Consolidated RMB'000
SEGMENT REVENUE							
External sales	1,964,027	3,724,515	70,834	21,604	34,207	–	5,815,187
Inter-segment sales	95,137	661,430	–	–	–	(756,567)	–
Total revenue	2,059,164	4,385,945	70,834	21,604	34,207	(756,567)	5,815,187
SEGMENT RESULTS	(127,898)	64,656	(32,824)	(150,328)	(19,875)	–	(266,269)
Unallocated other revenue							64,174
Loss from operations							(202,095)
Finance costs							(117,272)
Share of results of associates	277,601				873		278,474
Loss before taxation							(40,893)
Taxation							(56,616)
Loss after taxation							(97,509)

* Inter-segment sales are charged at prevailing market rates or, where no market rates are available, at cost plus a percentage profit mark-up.

5. BUSINESS AND GEOGRAPHICAL SEGMENT (Continued)

Business segment (Continued)

	As at 31 December 2001					
	PC and PC peripheral products RMB'000	HDD and related products RMB'000	Network transmission and add-on products RMB'000	Broadband network services RMB'000	Others RMB'000	Consolidated RMB'000
ASSETS						
Segment assets	1,708,445	5,482,741	316,712	1,837,402	164,130	9,509,430
Interests in associates	465,679	–	–	6,912	42,400	514,991
Investments in securities	–	–	–	–	94,925	94,925
Consolidated total assets						<u>10,119,346</u>
LIABILITIES						
Segment liabilities (excluding minority interests)	987,241	2,603,345	160,705	1,707,138	182,560	<u>5,640,989</u>
For the year ended 31 December 2001						
	PC and PC peripheral products RMB'000	HDD and related products RMB'000	Network transmission and add-on products RMB'000	Broadband network services RMB'000	Others RMB'000	Consolidated RMB'000
OTHER INFORMATION						
Capital additions (including acquisition of a subsidiary)	218,349	261,342	19,532	1,375,265	–	1,874,488
Depreciation and amortisation	29,294	156,356	586	15,614	–	201,850
Impairment losses recognised in income statement	6,063	–	–	–	–	<u>6,063</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENT (Continued)

Business segment (Continued)

	For the year ended 31 December 2000						
	PC and PC peripheral products RMB'000	HDD and related products RMB'000	Network transmission and add-on products RMB'000	Provision of broadband network services RMB'000	Others RMB'000	Eliminations* RMB'000	Consolidated RMB'000
SEGMENT REVENUE							
External sales	2,254,152	4,119,034	7,147	–	4,430	–	6,384,763
Inter-segment sales	14,161	462,128	–	–	–	(476,289)	–
Total revenue	2,268,313	4,581,162	7,147	–	4,430	(476,289)	6,384,763
SEGMENT RESULTS	(111,253)	240,431	173	–	(14,450)	–	114,901
Unallocated other revenue							21,660
Profit from operations							136,561
Gain on deemed disposal of partial interest in a subsidiary							87,091
Finance costs							(68,284)
Share of results of associates	231,225				(2,847)		228,378
Profit before taxation							383,746
Taxation							(38,750)
Profit after taxation							344,996

* Inter-segment sales are charged at prevailing market rates or, where no market rates are available, at cost plus a percentage profit mark-up.

5. BUSINESS AND GEOGRAPHICAL SEGMENT (Continued)

Business segment (Continued)

	As at 31 December 2000					
	PC and PC peripheral products RMB'000	HDD and related products RMB'000	Network transmission and add-on products RMB'000	Broadband network services RMB'000	Other RMB'000	Consolidated RMB'000
ASSETS						
Segment assets	1,577,416	4,747,446	216,159	451,139	52,521	7,044,681
Interests in associates	320,851	–	–	1,000	48,337	370,188
Investments in securities	49,776	–	–	–	78,881	128,657
Consolidated total assets						<u>7,543,526</u>
LIABILITIES						
Segment liabilities (excluding minority interests)	1,020,136	1,652,430	55,910	129,129	66,972	<u>2,924,577</u>
For the year ended 31 December 2000						
	PC and PC peripheral products RMB'000	HDD and related products RMB'000	Network transmission and add-on products RMB'000	Broadband network services RMB'000	Other RMB'000	Consolidated RMB'000
OTHER INFORMATION						
Capital additions	143,278	300,227	18,625	204,112	–	666,242
Depreciation and amortisation	17,001	132,716	297	423	–	<u>150,437</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENT (Continued)

Geographical segments

The Group's manufacturing and sale operations are located in Hong Kong and the PRC.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market		Contribution to operating results
	2001	2000	2001
	RMB'000	RMB'000	RMB'000
The PRC	2,500,119	2,169,529	(316,881)
Asia Pacific (excluding the PRC)	2,155,062	2,940,962	27,741
North America	1,155,772	1,185,272	22,787
Others	4,234	89,000	84
	5,815,187	6,384,763	(266,269)

Contribution to operating results by geographical market for the year ended 31 December 2000 has not been presented as the contribution to operating results from each market is substantially in line with the overall Group ratio of operating results to turnover of that year.

5. BUSINESS AND GEOGRAPHICAL SEGMENT (Continued)

Geographical segments (Continued)

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and construction in progress, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and construction in progress	
	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
The PRC (other than Hong Kong)	8,193,491	5,750,101	1,873,572	665,875
Hong Kong	1,920,513	1,701,671	213	283
Others	5,342	91,754	703	84
	10,119,346	7,543,526	1,874,488	666,242

6. OTHER REVENUE

	2001	2000
	RMB'000	RMB'000
Included in other revenue are as follows:		
Dividend income from other investments	37,716	21,660
Interest income	58,710	66,832
Rental income, net of outgoings of RMB17,036,000 (2000: RMB20,987,000)	18,175	19,623
Write back of provision for doubtful debts	31,002	70,923
Write back of provision for other investments	23,541	—
Gain on disposal of other investments	197	—

7. (LOSS) PROFIT FROM OPERATIONS

	2001 RMB'000	2000 RMB'000
(Loss) profit from operations has been arrived at after charging:		
Auditors' remuneration	4,587	3,680
Amortisation of goodwill	606	—
Depreciation and amortisation of property, plant and equipment	201,850	150,437
Loss on disposal and write off of property, plant and equipment	2,787	16,779
Operating lease rentals in respect of land and buildings	41,455	7,256
Research and development expenses	29,840	17,547
Staff costs (including retirement benefit costs (<i>note 8</i>) and directors' remuneration (<i>note 10</i>))	339,041	279,580

During the year, the Group has reviewed the recoverable amount of certain property, plant and equipment, resulting in the identification of impairment losses at 31 December 2001 amounting to RMB6,063,000 (2000: Nil). These impairment losses have been recognised in full in the current year.

8. RETIREMENT BENEFIT COSTS

The retirement benefit costs charged to the income statement represent contributions payable by the Group to the retirement scheme amounting to RMB15,086,000 (2000: RMB6,612,000, net of forfeited contribution of RMB531,000). There were no forfeited contribution for the year 31 December 2001.

There were no forfeited contributions available as at 31 December 2001 to reduce future contributions.

9. FINANCE COSTS

	2001 RMB'000	2000 RMB'000
Interest on:		
Bank and other borrowings wholly repayable within five years	149,255	87,194
Finance leases	2,146	–
Amount due to ultimate holding company	4,908	845
Total borrowing costs	156,309	88,039
Less: Amount capitalised in construction in progress	(39,037)	(19,755)
	117,272	68,284

The amount capitalised during the year arose on the Group's borrowings and is calculated by applying capitalisation rates ranging from 5.9% to 7% (2000: 6.5%) to expenditure on qualifying assets.

10. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration:

	2001 RMB'000	2000 RMB'000
Fees	600	800
Other emoluments:		
Salaries and other benefits	5,199	6,310
Performance related incentive payments	1,122	–
Contributions to retirement benefits schemes	217	205
	7,138	7,315

The amounts disclosed above included the directors' fees and other emoluments of RMB200,000 (2000: RMB300,000) paid to independent non-executive directors for the year ended 31 December 2001.

The emoluments of the directors were within the following bands:

	Number of directors	
	2001	2000
Nil to HK\$1,000,000	6	6
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$3,500,001 to HK\$4,000,000	1	–
HK\$5,000,001 to HK\$5,500,000	–	1
	8	8

10. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(b) Supervisors' remuneration:

	2001 RMB'000	2000 RMB'000
Fees	150	150
Other emoluments:		
Salaries and other benefits	300	240
Performance related incentive payments	20	30
Contributions to retirement benefits schemes	6	6
	476	426

The emoluments of the supervisors were within the following band:

	Number of supervisors	
	2001	2000
Nil to HK\$1,000,000	3	3

10. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(c) Employees' emoluments:

The five highest paid individuals of the Group for the year included 2 directors (2000: one director) of the Company and details of whose emoluments are disclosed in 10(a) above.

The emoluments of the remaining individuals were as follows:

	2001 RMB'000	2000 RMB'000
Salaries and other benefits	5,029	6,184
Performance related incentive payments	2,633	2,408
Contributions to retirement benefits schemes	283	337
	7,945	8,929

The emoluments of these individuals were within the following bands:

	Number of employees	
	2001	2000
HK\$1,000,001 to HK\$1,500,000	–	1
HK\$2,500,001 to HK\$3,000,000	3	3
	3	4

11. TAXATION

	2001 RMB'000	2000 RMB'000
The taxation charge comprises:		
Current year		
PRC income tax	26,053	13,427
Hong Kong Profits Tax	7,648	5,550
Underprovision in prior years	2,438	2,210
	36,139	21,187
Deferred taxation credit (<i>note 27</i>)	(42)	–
Taxation attributable to the Company and its subsidiaries	36,097	21,187
Share of taxation of associates	20,519	17,563
	56,616	38,750

PRC income tax has been calculated at the prevailing rates on the estimated assessable profits applicable to each individual company within the Group in the PRC.

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for the year.

Details of deferred taxation are set out in note 27.

12. DIVIDEND

The directors do not recommend the payment of any dividend for the current year.

The amount for the year ended 31 December 2000 represented the final dividend of RMB3.00 cents per share for the year ended 31 December 2000.

13. BASIC (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the net loss for the year of approximately RMB135,586,000 (2000: net profit of RMB230,168,000) and on 1,197,742,000 (2000: 1,197,742,000) shares in issue during the year.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings				Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
	Construction in progress RMB'000	Situated in Hong Kong under medium- term lease RMB'000	Situated in the PRC under medium- term land use rights RMB'000	Staff quarters situated in the PRC under medium- term land use rights RMB'000			
THE GROUP							
COST OR VALUATION							
At 1 January 2001	547,986	13,255	692,958	145,614	1,146,719	19,442	2,565,974
Additions	1,576,812	–	66,575	–	220,252	6,362	1,870,001
Acquisition of a subsidiary	–	–	–	–	4,487	–	4,487
Disposals and write off	(1,563)	(1,223)	–	–	(22,810)	(4,667)	(30,263)
Transfer	(480,320)	–	222,020	–	258,300	–	–
Deficit on revaluation	–	–	(13,493)	–	–	–	(13,493)
At 31 December 2001	1,642,915	12,032	968,060	145,614	1,606,948	21,137	4,396,706
Comprising:							
At cost	1,642,915	–	–	145,614	1,606,948	21,137	3,416,614
At valuation – 1999	–	12,032	691,175	–	–	–	703,207
At directors' valuation – 2001	–	–	276,885	–	–	–	276,885
	1,642,915	12,032	968,060	145,614	1,606,948	21,137	4,396,706
DEPRECIATION AND AMORTISATION/ IMPAIRMENT							
At 1 January 2001	–	2,221	29,909	3,345	426,515	12,122	474,112
Provided for the year	–	1,248	45,386	4,795	147,680	2,741	201,850
Eliminated on disposals and write off	–	(116)	–	–	(12,132)	(2,547)	(14,795)
Impairment loss recognised in income statement	–	–	–	–	6,017	46	6,063
Written back on revaluation	–	–	(13,493)	–	–	–	(13,493)
At 31 December 2001	–	3,353	61,802	8,140	568,080	12,362	653,737
NET BOOK VALUES							
At 31 December 2001	1,642,915	8,679	906,258	137,474	1,038,868	8,775	3,742,969
At 31 December 2000	547,986	11,034	663,049	142,269	720,204	7,320	2,091,862

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Land and buildings in Hong Kong and certain land and buildings in the PRC were revalued on an open market value and/or depreciated replacement cost basis by Vigers Hong Kong Limited, an independent valuer at 30 April 1999 with an aggregate amount of RMB703,207,000. In the opinion of the directors, the fair value of the land and building at 31 December 2001 is not materially different from this valuation.

The remaining land and buildings located in the PRC were acquired or completed in late 2001. Therefore the directors are of the opinion that their costs of RMB276,885,000 are not materially different from market value as at 31 December 2001.

If land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation and amortisation of approximately RMB928 million (2000: RMB687 million).

The Group's land and building situated in the PRC under medium-term land use rights carried at a cost of approximately RMB188 million (2000: RMB188 million) and accumulated depreciation and amortisation of RMB15 million (2000: RMB9 million) are held for rental purpose under operating leases.

Included in construction in progress of the Group at the balance sheet date is interest capitalised of RMB48,383,000 (2000: RMB19,755,000).

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

The net book value of plant and machinery includes an amount of RMB60,992,000 (2000: Nil) in respect of assets held under finance leases.

	Construction in progress RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
THE COMPANY				
COST				
At 1 January 2001	135,966	57,668	612	194,246
Additions	116,558	8,580	1,124	126,262
At 31 December 2001	252,524	66,248	1,736	320,508
DEPRECIATION				
At 1 January 2001	–	2,440	88	2,528
Provided for the year	–	18,379	571	18,950
At 31 December 2001	–	20,819	659	21,478
NET BOOK VALUES				
At 31 December 2001	252,524	45,429	1,077	299,030
At 31 December 2000	135,966	55,228	524	191,718

Included in construction in progress of the Company at the balance sheet date is interest capitalised of RMB10,538,000 (2000: RMB7,044,000).

15. GOODWILL

THE GROUP

RMB'000

COST

Arising on acquisition during the year and balance at 31 December 2001 6,063

AMORTISATION

Amortisation during the year and balance at 31 December 2001 606

NET BOOK VALUE

At 31 December 2001 5,457

Goodwill is amortised over ten years.

16. INVESTMENTS IN SUBSIDIARIES

THE COMPANY

2001

2000

RMB'000

RMB'000

At cost

Listed shares in the PRC

1,218,670

1,218,670

Unlisted investments in the PRC

328,632

328,632

1,547,302

1,547,302

Market value of listed shares in the PRC

8,613,385

21,296,317

16. INVESTMENTS IN SUBSIDIARIES (Continued)

Details of the Company's principal subsidiaries as at 31 December 2001 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operation	Issued share capital/ registered capital	Percentage of issued share capital/ registered capital held by		Equity interest attributable to the Group	Principal activities
北京新明光電技術 有限公司 Beijing Xin Ming Optoelectronic Technology Co., Ltd. #	PRC	US\$600,000	–	100%	55.96%	Manufacture and trading of photographic products
中國長城計算機深圳 股份有限公司 China Great Wall Computer (Shenzhen) Co., Ltd. ("CGC")*	PRC	RMB458,491,500	60.47%	–	60.47%	Manufacture and trading of PC and PC peripheral products
長城寬帶網絡服務 有限公司 Great Wall Broadband Network Service Co., Ltd. ("GWB")	PRC	RMB300,000,000	70%	30%	87.46%	Provision of broadband network servicing
長城計算機軟件與系統 有限公司 Great Wall Computer Software and System Incorporation Limited	PRC	RMB33,000,000	–	95%	57.45%	Development of computer software
開發科技(香港)有限公司 Kaifa Technology (H.K.) Limited	Hong Kong	US\$500,000	–	100%	55.96%	Trading of hard disk drive heads and hard disk drive substrates

16. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment and operation	Issued share capital/ registered capital	Percentage of issued share capital/ registered capital held by the Company	subsidaries	Equity interest attributable to the Group	Principal activities
昂納光通訊有限公司 O-Net Communications Limited #	Cayman Islands	US\$1,764,750	–	73.33%	41.04%	Investment holding
昂納香港有限公司 O-Net Communications (HK) Limited #	Hong Kong	HK\$1,000,000	–	100%	41.04%	Trading of fiber optic components
昂納信息技術(深圳) 有限公司 O-Net Communications (Shenzhen) Ltd. #	PRC	HK\$60,028,196	–	100%	41.04%	Manufacture of fiber optic parts for optical communications networks
昂納光集成技術有限公司 O-Net Integrated Technology (Shenzhen) Ltd. #	PRC	US\$7,230,000	–	70%	28.72%	Manufacture of integrated parts for optical communications networks
深圳市開發磁記錄有限公司 Shenzhen Kaifa Magnetic Recording Co., Ltd. #	PRC	RMB224,033,000	51%	49%	78.42%	Production and development of hard disk drive substrates
深圳開發科技股份有限公司 Shenzhen Kaifa Technology Co., Ltd.* ("S. Kaifa") #	PRC	RMB732,932,000	55.96%	–	55.96%	Production of hard drive heads

16. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment and operation	Issued share capital/ registered capital	Percentage of issued share capital/ registered capital held by the Company	subsidaries	Equity interest attributable to the Group	Principal activities
深圳昂納晶體有限公司 Shenzhen O-Net Crystal Technology Ltd. #	PRC	RMB20,000,000	–	100%	73.33%	Manufacture of crystal parts for optical communications networks
商網通電子商務有限公司 Sowant E-commerce Co., Ltd.	PRC	RMB50,000,000	–	90%	54.42%	Provision of e-commerce business
新明科技(香港)有限公司 Xin Ming Technology (H.K.) Limited #	Hong Kong	HK\$30,000,000	–	55.96%	55.96%	Investment holding

Companies not audited by Deloitte Touche Tohmatsu or its member firms.

* Subsidiary with its A shares listed on the Shenzhen Stock Exchange in the PRC.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

17. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted shares, at cost less impairment losses	–	–	22,781	20,281
Share of net assets	514,991	370,188	–	–
	514,991	370,188	22,781	20,281

Details of the Group's principal associates as at 31 December 2001 are as follows:

Name of entity	Place of establishment and operation	Percentage of registered capital held by the Company subsidiaries		Equity interest attributable to the Group	Principal activities
北京金長科國際電子有限公司 Beijing GKI Electronics Co. Ltd. ("Beijing GKI") #	PRC	–	30%	18.14%	Manufacture of computer
長城國際信息產品(深圳) 有限公司 International Information Products (Shenzhen) Co., Ltd. ("IIPC") #	PRC	–	30%	18.14%	Manufacture of computer
深圳長科國際電子有限公司 Shenzhen GKI Electronics Co., Ltd. ("Shenzhen GKI") #	PRC	–	30%	18.14%	Manufacture of motherboard
華旭金卡有限公司 Hua Xu Gold Card Co., Ltd. #	PRC	–	25.60%	14.33%	Manufacturing of magnetic and optical card

17. INTERESTS IN ASSOCIATES (Continued)

Name of entity	Place of establishment and operation	Company	Percentage of registered capital held by the subsidiaries	Equity interest attributable to the Group	Principal activities
深圳海量存儲設備有限公司 Shenzhen Hai Liang Storage Products Co. Ltd. #	PRC	–	20%	11.64%	Manufacture and sale of magnetic head products
國際商業機器租賃有限公司 IBM Leasing Company Limited ("IBM Leasing") #	PRC	–	20%	11.64%	Direct finance leasing and provision of consulting services
金士頓科技電子(上海)有限公司 Kingston Technology Electronic (Shanghai) Co., Ltd. #	PRC	–	30%	18.14%	Manufacture and sale of various memory module
北京長通聯合寬帶網絡技術有限公司 Beijing ChangTong United Broadband Technology Company Limited #	PRC	10%	20%	22.09%	Developing of application software for broadband network services

Companies not audited by Deloitte Touche Tohmatsu or its member firms.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The following details have been extracted from the audited financial statements, which are prepared under International Accounting Standards and are not materially different from that prepared under HK GAAP, of the Group's significant associates.

17. INTERESTS IN ASSOCIATES (Continued)

Operating results for the years ended 31 December 2001 and 2000:

	IIPC		Shenzhen GKI		Beijing GKI	
	2001	2000	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	10,229,294	7,224,048	1,971,273	1,963,778	5,264,396	383,717
Depreciation and amortisation	18,443	10,237	29,040	30,409	36,114	2,818
Profit (loss) from ordinary activities before taxation	900,571	734,299	26,659	36,529	69,117	(6,629)
Taxation	(68,379)	(55,520)	(2,244)	(3,026)	-	-
Profit (loss) from ordinary activities after taxation	832,192	678,779	24,415	33,503	69,117	(6,629)
Profit (loss) attributable to the Group	249,658	203,634	7,325	10,051	20,735	(1,989)

Financial positions as at 31 December 2001 and 2000:

	IIPC		Shenzhen GKI		Beijing GKI	
	2001	2000	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total non-current assets	94,695	89,878	95,274	119,397	122,566	142,827
Total current assets	3,565,002	2,184,546	224,935	505,144	906,425	512,258
Total liabilities	(2,694,360)	(1,467,305)	(141,497)	(440,244)	(883,704)	(578,914)
Shareholders' funds	965,337	807,119	178,712	184,297	145,287	76,171
Shareholders' funds attributable to the Group	289,601	242,136	53,614	55,289	43,586	22,851
Contingent liabilities as at 31 December	Nil	Nil	Nil	Nil	Nil	Nil

18. INVESTMENTS IN SECURITIES

	THE GROUP	
	2001 RMB'000	2000 RMB'000
Other investments comprise:		
Unlisted investments in the PRC	94,925	128,657

In the opinion of the directors, the fair values of the other investments are not material different from their carrying values.

19. DEPOSIT

Deposit represents investment cost paid to acquire a company.

20. INVENTORIES

	THE GROUP		THE COMPANY	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Raw materials	393,772	341,916	11,816	17,501
Work in progress	88,854	98,774	–	–
Finished goods	360,850	369,106	70	1,984
Spare parts and consumables	2,490	3,426	–	5
	845,966	813,222	11,886	19,490

20. INVENTORIES (Continued)

Included in the inventories of the Group and the Company at the balance sheet date are the following amounts stated at their net realisable values:

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	177,497	20,577	11,816	–
Work in progress	4,739	–	–	–
Finished goods	195,828	260,628	70	–
	378,064	281,205	11,886	–

21. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLES

The Group grants an average credit period of 90 days to its trade customers.

- (a) Included in trade and other receivables of the Group and the Company were trade receivables with the following aging analysis:

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	1,303,514	1,218,948	–	70,369
91 – 180 days	67,176	81,915	–	–
181 – 365 days	90,906	25,591	–	–
Over 365 days	116,814	50,238	–	–
	1,578,410	1,376,692	–	70,369

21. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLES (Continued)

Included in trade and other receivables is an amount of approximately RMB33,600,000 (2000: RMB33,600,000) which is owed by 四川銀通電腦系統有限責任公司 (“四川銀通”) and guaranteed by 成都市商業銀行. In 2000, 四川銀通 and 成都市商業銀行 refused to honour their obligations and the Group took legal proceedings against 四川銀通 and 成都市商業銀行. In October 2000, the Group received judgement in favour of the Group from the 四川省高級人民法院. In October 2000, 成都市商業銀行 contested the case. In 2001, 中華人民共和國最高法院 granted the final judgment in favor of the Group, and 四川銀通 is required to repay the outstanding balance to the Group and 成都市商業銀行 should be responsible for related payment obligations. In the opinion of the directors, the Group will receive the whole outstanding balances from 四川銀通 and/or 成都市商業銀行 and accordingly, no provision for doubtful debt in respect of the amount of RMB33,600,000 receivable has been made in the financial statements.

(b) The aging analysis for bills receivable is as follows:

	THE GROUP	
	2001 RMB'000	2000 RMB'000
Within 90 days	30,614	49,837
91 - 180 days	2,093	1,130
181 - 365 days	20	—
	32,727	50,967

22. TRADE AND OTHER PAYABLES AND BILLS PAYABLE

- (a) Included in trade and other payables of the Group and the Company were trade payables with the following aging analysis:

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	1,103,280	759,515	33	65,756
91 – 180 days	258,581	27,747	–	34
181 – 365 days	60,773	10,098	1	46
Over 365 days	10,950	19,002	203	18
	1,433,584	816,362	237	65,854

- (b) The aging analysis for bills payable is as follows :

	THE GROUP	
	2001	2000
	RMB'000	RMB'000
Within 90 days	203,624	192,830
91 – 180 days	110,753	10,044
181 – 365 days	5,071	–
	319,448	202,874

23. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Bank and other borrowings:				
Secured	552,700	95,300	470,000	90,000
Unsecured	2,576,400	1,547,450	200,000	190,000
	3,129,100	1,642,750	670,000	280,000
Bank and other borrowings comprise:				
Bank borrowings	2,918,100	1,642,750	670,000	280,000
Other borrowings	211,000	–	–	–
	3,129,100	1,642,750	670,000	280,000
The maturity of bank and other borrowings is as follows:				
On demand or within one year	1,846,700	1,406,350	470,000	280,000
More than one year but not exceeding two years	1,282,400	2,000	200,000	–
More than two years but not exceeding five years	–	234,400	–	–
	3,129,100	1,642,750	670,000	280,000
Less: Amount due within one year and shown under current liabilities	(1,846,700)	(1,406,350)	(470,000)	(280,000)
Amount due after one year	1,282,400	236,400	200,000	–

23. BANK AND OTHER BORROWINGS (Continued)

The above borrowings bear interest ranging from 4.1% to 7.0% (2000: 3.4% to 8.3%) per annum.

At the balance sheet date, approximately RMB1,090,000,000 (2000: RMB770,000,000) of the outstanding balance was guaranteed by the ultimate holding company and a fellow subsidiary for no charge. The guarantees will be discontinued upon the respective expiry dates of these facilities.

24. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payment		Present value of minimum lease payment	
	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
Amount payable under finance leases:				
Within one year	23,942	—	21,154	—
More than one year but not exceeding two years	23,942	—	21,154	—
More than two years but not exceeding five years	5,509	—	4,868	—
	53,393	—	47,176	—
Less: Future finance charges	(6,217)	—	—	—
Present value of lease obligations	47,176	—	47,176	—
Less: Amount due for settlement within one year and shown under current liabilities			(21,154)	—
Amount due for settlement after one year			26,022	—

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is three years.

24. OBLIGATIONS UNDER FINANCE LEASES (Continued)

For the year ended 31 December 2001, the average effective borrowing rate was 4.4%. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

25. SHARE CAPITAL

	State-owned legal person shares RMB'000	Overseas listed foreign invested shares RMB'000	Total RMB'000
Registered, issued and paid-up capital of RMB1.00 each:			
At 1 January 2000, balance at			
31 December 2000 and 31 December 2001	743,870	453,872	1,197,742

There were no movements in share capital of the Company for both years.

26. RESERVES

	Share premium RMB'000	Discretionary common reserve RMB'000	Statutory public welfare fund RMB'000	Statutory common reserve RMB'000	Goodwill reserve RMB'000	Dividend reserve RMB'000	Accumulated profits RMB'000	Total RMB'000
THE GROUP								
At 1 January 2000								
As original stated	996,660	128,043	69,729	69,106	(11,661)	–	377,100	1,628,977
Prior year adjustment (note 3)	–	–	–	–	–	37,729	–	37,729
As restated	996,660	128,043	69,729	69,106	(11,661)	37,729	377,100	1,666,706
Goodwill arising on acquisition of additional interests in subsidiaries	–	–	–	–	(16,494)	–	–	(16,494)
Dividend paid	–	–	–	–	–	(37,729)	–	(37,729)
Net profit for the year	–	–	–	–	–	–	230,168	230,168
Transfer	–	45,261	32,081	32,081	–	–	(109,423)	–
Dividend declared for the year	–	–	–	–	–	35,932	(35,932)	–
At 31 December								
2000 – as restated	996,660	173,304	101,810	101,187	(28,155)	35,932	461,913	1,842,651
Dividend paid	–	–	–	–	–	(35,932)	–	(35,932)
Net loss for the year	–	–	–	–	–	–	(135,586)	(135,586)
Transfer	–	–	9,519	9,519	–	–	(19,038)	–
At 31 December 2001	996,660	173,304	111,329	110,706	(28,155)	–	307,289	1,671,133

The accumulated profits of the Group include approximately RMB224,430,000 (2000: RMB163,027,000) retained by associates of the Group.

The discretionary common reserve represents the appropriation of certain percentage of profit after taxation of the PRC subsidiaries as recommended by the directors of these subsidiaries as reported under the PRC statutory financial statements.

26. RESERVES (Continued)

The statutory public welfare fund represents the appropriation of 5% to 10% profit after taxation of the PRC subsidiaries as determined under the PRC accounting standards according to the relevant law and the regulations stipulated by the Ministry of Finance of the State Council. The fund can be applied only for the collective welfare of the employees of the Group in the PRC. The public welfare fund is not distributable to shareholders. There has been no utilisation of the public welfare fund during the year.

The movement in the statutory common reserve represents the appropriation of 10% of profit after taxation of the PRC subsidiaries as determined under the PRC accounting standards in accordance with the relevant law and the regulations stipulated by the Ministry of Finance of the State Council. The appropriation may cease to apply if the balance of the statutory common reserve has reached or exceeded 50% of the registered capital of the PRC subsidiaries.

According to the Articles of Association of the Company and of its subsidiaries established in the PRC, discretionary and statutory common reserves can be used to offset prior year losses, to expand business operations of the PRC subsidiaries or to increase registered capital by way of conversion of reserve to registered capital, provided that the amount of unconverted statutory common reserve shall not be less than 25% of the registered capital of the PRC subsidiaries.

26. RESERVES (Continued)

	Share premium RMB'000	Dividend reserve RMB'000	Accumulated profits RMB'000	Total RMB'000
The Company				
At 1 January 2000				
As original stated	996,660	–	97,645	1,094,305
Prior year adjustment (<i>note 3</i>):				
– Proposed final dividend declared	–	37,729	–	37,729
– Dividend income from subsidiaries	–	–	(49,269)	(49,269)
As restated	996,660	37,729	48,376	1,082,765
Dividend paid	–	(37,729)	–	(37,729)
Net profit for the year	–	–	12,686	12,686
Dividend declared for the year	–	35,932	(35,932)	–
At 31 December 2000				
– as restated	996,660	35,932	25,130	1,057,722
Dividend paid	–	(35,932)	–	(35,932)
Net loss for the year	–	–	(44,019)	(44,019)
At 31 December 2001	996,660	–	(18,889)	977,771

For the purpose of approving the distribution of profit, the amount shall be deemed to be the lesser of the Company's profits after appropriation to reserves as determined in accordance with HK GAAP and PRC accounting standards.

The Company's retained profits after provision for the final dividend for the year ended 31 December 2000 determined under PRC accounting standards amounted to RMB506,019,000. However, the Company has no distributable profits at 31 December 2001. As at 31 December 2000, the Company's distributable profits amounted to RMB25,130,000 (after restated), being the accumulated profits determined under HK GAAP. However, the Company has no distributable profits under HK GAAP at 31 December 2001.

27. DEFERRED TAXATION

	THE GROUP		THE COMPANY	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
At 1 January	42	42	–	–
Credit for the year (note 11)	(42)	–	–	–
At 31 December	–	42	–	–

At 31 December 2000, deferred taxation provided was attributable to the excess of depreciation allowances claimed for tax purposes over accounting depreciation charged in the financial statements.

Neither the Group and the Company had any material unprovided deferred taxation for the year nor at the balance sheet date.

28. RECONCILIATION OF (LOSS) PROFIT BEFORE TAXATION TO NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES

	2001 RMB'000	2000 RMB'000
(Loss) profit before taxation	(40,893)	383,746
Share of results of associates	(278,474)	(228,378)
Interest income	(58,710)	(66,832)
Interest expenses	117,272	68,284
Depreciation and amortisation	202,456	150,437
Loss on disposal and write off of property, plant and equipment	2,787	16,779
Impairment losses recognised in respect of property, plant and equipment	6,063	–
Dividend income from other investments	(37,716)	(21,660)
Write back of provision for other investments	(23,541)	–
Gain on disposal of other investments	(197)	–
Gain on deemed disposal of partial interest in a subsidiary	–	(87,091)
Increase in inventories	(31,161)	(131,375)
Increase in trade and other receivables	(313,782)	(594,045)
Decrease in bills receivable	18,240	26,955
Increase in amounts due from fellow subsidiaries	(6,414)	(15,298)
(Increase) decrease in amount due from an associate	(295)	74
Increase in amounts due from related companies	(227,975)	(9,083)
Increase in trade and other payables	950,236	235,459
Increase (decrease) in bills payable	116,574	(165,146)
(Decrease) increase in amount due to an associate	(364)	364
(Decrease) increase in amounts due to related companies	(6,156)	6,156
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES	387,950	(430,654)

29. ACQUISITION OF A SUBSIDIARY

	2001 RMB'000	2000 RMB'000
Net assets acquired:		
Property, plant and equipment	4,487	—
Inventories	1,583	—
Trade and other receivables	665	—
Bank balances and cash	8,436	—
Trade and other payables	(897)	—
Minority interests	(3,997)	—
	10,277	—
Goodwill	6,063	—
Total consideration	16,340	—
Satisfied by cash	16,340	—
Net cash outflow arising on acquisition:		
Cash consideration	16,340	—
Bank balances and cash acquired	(8,436)	—
	7,904	—

The subsidiary purchased did not have any significant impact on the revenue, profit, net operating cash flows, return on investments and servicing of finance or investing activities for the year.

30. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Obligations under finance leases RMB'000	Bank and other borrowings RMB'000	Amount due to ultimate holding company RMB'000	Amounts due from fellow subsidiaries RMB'000	Minority interests RMB'000
At 1 January 2000	–	1,405,080	–	–	1,306,302
New borrowings raised	–	2,258,750	100,000	–	–
Repayment of borrowings	–	(2,021,080)	–	–	–
Capital contribution from minority shareholders	–	–	–	–	264,701
Deemed disposal of partial interest in a subsidiary	–	–	–	–	(87,091)
Results attributable to minority shareholders	–	–	–	–	114,828
Dividends paid to minority shareholders	–	–	–	–	(9,684)
Additional interests in subsidiaries acquired by the Group	–	–	–	–	(10,500)
At 31 December 2000	–	1,642,750	100,000	–	1,578,556
New borrowings raised	63,461	3,480,350	–	122,457	–
Repayment of borrowings	(16,285)	(1,994,000)	(20,896)	–	–
Results attributable to minority shareholders	–	–	–	–	38,077
Dividends paid to minority shareholders	–	–	–	–	(11,148)
Acquisition of a subsidiary	–	–	–	–	3,997
At 31 December 2001	47,176	3,129,100	79,104	122,457	1,609,482

31. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of RMB63,461,000 (2000: Nil).

32. CAPITAL COMMITMENTS

At the balance sheet date, the Group and the Company had the following capital commitments:

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditure in respect of construction in progress:				
– contracted but not provided for in the financial statements	402,278	284,462	85,320	144,801
– authorised but not contracted for	91,502	213,860	–	–
Capital contribution in respect of investment in associates contracted but not provided for in the financial statements	20,675	33,112	–	–
	514,455	531,434	85,320	144,801

33. LEASE COMMITMENTS

(a) The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	36,694	21,452	3,296	—
In the second to fifth year inclusive	118,585	20,803	325	—
	155,279	42,255	3,621	—

Operating lease payments represent rentals payable by the Group for certain of its office and factory properties. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

(b) The Group as lessor

Property rental income earned during the year was RMB35,211,000 (2000: RMB40,610,000).

The properties held have committed tenants for the next year.

At the balance sheet date, the Group had contracted with tenants for future minimum lease payments amounting to RMB12,051,000 (2000: RMB10,622,000) which fall due within one year.

34. CONTINGENT LIABILITIES

At the balance sheet date, the Group had the following contingent liabilities not yet provided for in the accounts in respect of:

	THE GROUP	
	2001	2000
	RMB'000	RMB'000
Guarantees given to financial institutions in respect of banking facilities granted to a customer	7,300	–

The Company did not have any significant contingent liabilities at the balance sheet date.

35. PLEDGE OF ASSETS

At the balance sheet date, the Group and the Company had bank deposits amounting to approximately RMB742,535,000 (2000: RMB215,722,000) and RMB632,807,000 (2000: RMB124,500,000), respectively, pledged to banks to secure general banking facilities granted to the Group.

36. POST BALANCE SHEET EVENTS

Details of post balance sheet event are as follows:

- Subsequent to the balance sheet date, the Group entered into an agreement with an existing joint venture partner of an associate, IIPC, to dispose of 10% equity interest in IIPC to this joint venture partner at a consideration of US\$9,000,000.
- On 10 April 2002, the Company, CGC and S. Kaifa entered into an agreement (the "Agreement") with China International Trust and Investment Corporation ("CITIC"). Pursuant to the Agreement, CTIC agreed to inject capital by stages in the sum of RMB666,667,000 into GWB for the issue of new shares in GWB to CITIC. Following the completion of new issue of the shares by GWB, the relative shareholding in GWB will be changed from being 70% held by the Company, 15% held by CGC and 15% held by S. Kaifa to being 50% held by CITIC, 35% held by the Company, 7.5% held by CGC and 7.5% held by S. Kaifa. Details of the transaction were announced by the Company on 10 April 2002.

37. RELATED PARTY TRANSACTIONS AND BALANCES

(i) Related party transactions

During the year, the Group entered into the following transactions with its related parties:

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

	2001 RMB'000	2000 RMB'000
Sales of products	57,181	59,964
Interest expenses paid	4,908	845
Trademark licensing fee paid	1,798	2,772
Purchase of components and parts	5,366	–
Guarantees given by ultimate holding company	1,040,000	770,000
Guarantees given by a fellow subsidiary	50,000	–

(b) Associates

	2001 RMB'000	2000 RMB'000
Rental income received	19,723	12,045
Processing fee paid	283	10,722
Purchase of components and parts	8,068	6,555
Finance lease charge paid	2,146	–

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

	2001 RMB'000	2000 RMB'000
Sales of products	276,162	–
Purchase of products	102,890	–

37. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)**(i) Related party transactions (Continued)**

- (d) Group of companies with common directors of the Company and a shareholder of a fellow subsidiary

	2001 RMB'000	2000 RMB'000
Purchase of components and parts	–	6,868

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

(ii) Related party balances

At the balance sheet date, the Group and the Company had the outstanding balances with the following related parties:

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

	THE GROUP	
	2001 RMB'000	2000 RMB'000
Amounts due from fellow subsidiaries	26,140	19,726
Amount due to ultimate holding company	79,104	100,000
Amounts due to fellow subsidiaries	122,457	–

- (b) Associates:

	THE GROUP	
	2001 RMB'000	2000 RMB'000
Amount due from an associate	327	32
Amount due to an associate	–	364

37. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(ii) Related party balances (Continued)

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

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from related companies	237,058	–	194,989	–

(d) Group of companies with common directors of the Company and a shareholder of a fellow subsidiary:

	THE GROUP	
	2001	2000
	RMB'000	RMB'000
Amounts due from related companies	–	9,083
Amount due to a related company	–	6,156

(e) Subsidiaries of the Company:

	THE COMPANY	
	2001	2000
	RMB'000	RMB'000
Amounts due from subsidiaries	607	–
Amounts due to subsidiaries	182,596	–