

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE SIX MONTHS ENDED 30 JUNE 2002

**1. GENERAL**

The Company is a sino-foreign joint venture joint stock limited company established in The People's Republic of China (the "PRC") on 20 March 1998. 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.

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.

**2. BASIS OF PREPARATION**

The condensed consolidated financial statements have been prepared in accordance with Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA") and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on HKSE.

**3. ACCOUNTING POLICIES/ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE**

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

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2001, except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised Statements of Standards Accounting Practice ("SSAP(s)") issued by HKSA as follows:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 15 (Revised)	Cash flow statements
SSAP 33	Discontinuing operations
SSAP 34	Employee benefits
SSAP 35	Accounting for government grants and disclosure of government assistance

### 3. ACCOUNTING POLICIES/ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE – continued

Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these condensed consolidated financial statements. Comparative amounts and disclosure for the prior period have been restated in order to achieve a consistent presentation. However, none of the amendments outlined above has affected the results for the current or prior periods.

### 4. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION

#### 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.

Segment information about these businesses is presented below:

Six months ended 30 June 2002							
	PC and PC peripheral products	HDD and related products	Network transmission and add-on products	Provision of broadband network services	Others	Eliminations*	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
SEGMENT REVENUE							
External revenue	702,146	2,173,458	7,264	48,315	141,567	–	3,072,750
Inter-segment revenue	–	229,583	–	–	–	(229,583)	–
Total revenue	<u>702,146</u>	<u>2,403,041</u>	<u>7,264</u>	<u>48,315</u>	<u>141,567</u>	<u>(229,583)</u>	<u>3,072,750</u>
SEGMENT RESULTS	<u>(79,460)</u>	<u>(1,678)</u>	<u>(2,289)</u>	<u>(25,092)</u>	<u>24,958</u>	<u>–</u>	<u>(83,561)</u>
Unallocated other revenue							<u>36,162</u>
Loss from operations							<u>(47,399)</u>

### 4. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION – continued

Six months ended 30 June 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 revenue	1,010,744	1,520,486	73,978	–	11,433	–	2,616,641
Inter-segment revenue	85,971	22,938	115,210	–	–	(224,119)	–
Total revenue	<u>1,096,715</u>	<u>1,543,424</u>	<u>189,188</u>	<u>–</u>	<u>11,433</u>	<u>(224,119)</u>	<u>2,616,641</u>
SEGMENT RESULTS	<u>480</u>	<u>29,169</u>	<u>2,344</u>	<u>–</u>	<u>1,971</u>	<u>–</u>	<u>33,964</u>
Unallocated other revenue							<u>41,617</u>
Profit from operations							<u>75,581</u>

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

**4. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION – 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:

	<b>Sales revenue by geographical market Six months ended</b>		<b>Contribution to operating results Six months ended</b>	
	<b>30 June 2002</b>	<b>30 June 2001</b>	<b>30 June 2002</b>	<b>30 June 2001</b>
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
The PRC	696,827	1,139,420	(122,701)	(25,703)
Asia Pacific (excluding the PRC)	2,075,581	1,044,055	32,159	41,486
North America	300,310	413,622	6,982	17,596
Others	32	19,544	(1)	585
	<u>3,072,750</u>	<u>2,616,641</u>	<u>(83,561)</u>	<u>33,964</u>
Unallocated revenue			<u>36,162</u>	<u>41,617</u>
(Loss) profit from operations			<u>(47,399)</u>	<u>75,581</u>

**5. OTHER REVENUE**

	<b>Six months ended 30 June</b>	
	<b>2002</b>	<b>2001</b>
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Included in other revenue are as follows:		
Dividend income from other investments	36,162	41,617
Interest income	<u>10,072</u>	<u>16,322</u>

## 6. (LOSS) PROFIT FROM OPERATIONS

	Six months ended 30 June	
	2002	2001
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(Loss) profit from operations has been arrived at after charging:		
Depreciation and amortisation of property, plant and equipment	1 55,067	107,625
Amortisation of goodwill (included in administrative and other operating expenses)	304	—
	<u>155,371</u>	<u>107,625</u>

## 7. TAXATION

	Six months ended 30 June	
	2002	2001
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The taxation charge comprises:		
Current year:		
PRC income tax	3,791	10,435
Hong Kong Profits Tax	2,977	3,272
Deferred taxation credit	—	(42)
	<u>6,768</u>	<u>13,665</u>
Taxation attributable to the Company and its subsidiaries	6,768	13,665
Share of taxation of associates	4,697	11,095
	<u>11,465</u>	<u>24,760</u>

PRC income tax has been provided 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 period.

No provision for deferred taxation has been made in the financial statements for the period as the amount involved is not significant.

## 8. DIVIDEND

The directors do not recommend the payment of an interim dividend for either period.

**9. BASIC EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the net profit for the period of RMB 31,726,000 (six months ended 30 June 2001: net profit of RMB 65,894,000) and on 1,197,742,000 shares (30.6.2001: 1,197,742,000 shares) in issue during the period.

**10. PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group spent an aggregate amount of RMB498,355,000 (six months ended 30 June 2001: RMB 1,029,663,000) on additions to property, plant and equipment.

**11. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE**

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

(a) Include in trade and other receivables were trade receivables with the following aged analysis:

	<b>30.6.2002</b>	<b>31.12.2001</b>
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 90 days	937,541	1,303,514
91-180 days	180,698	67,176
181-365 days	35,864	90,906
Over 365 days	301,918	116,814
	<hr/>	<hr/>
	1,456,021	1,578,410
	<hr/>	<hr/>

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 process of implementation of the decision of 中華人民共和國最高法院, the 四川省高級人民法院 decided to re-open the case and it is currently in the process of final decision. 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.

## 11. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE – continued

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

	30.6.2002	31.12.2001
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 90 days	10,190	30,614
91-180 days	18,292	2,093
181-365 days	–	20
	<u>28,482</u>	<u>32,727</u>

## 12. TRADE AND OTHER PAYABLES AND BILLS PAYABLE

(a) Included in trade and other payables were trade payables with the following aged analysis:

	30.6.2002	31.12.2001
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 90 days	852,743	1,103,280
91-180 days	160,862	258,581
181-365 days	425,732	60,773
Over 365 days	66,599	10,950
	<u>1,505,936</u>	<u>1,433,584</u>

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

	30.6.2002	31.12.2001
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 90 days	138,319	203,624
91-180 days	190,393	110,753
181-365 days	–	5,071
	<u>328,712</u>	<u>319,448</u>

## 13. SHARE CAPITAL

There were no movements in share capital of the Company in either the current or the prior interim reporting period.

**14. 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
At 1 January 2001	996,660	173,304	101,810	101,187	(28,155)	35,932	461,913	1,842,651
Dividend paid	-	-	-	-	-	(35,932)	-	(35,932)
Net profit for the six months ended 30 June 2001	-	-	-	-	-	-	65,894	65,894
At 30 June 2001 and 1 July 2001	996,660	173,304	101,810	101,187	(28,155)	-	527,807	1,872,613
Net loss for the six months ended 31 December 2001	-	-	-	-	-	-	(201,480)	(201,480)
Transfer	-	-	9,519	9,519	-	-	(19,038)	-
At 31 December 2001 and 1 January 2002	996,660	173,304	111,329	110,706	(28,155)	-	307,289	1,671,133
Net profit for the period	-	-	-	-	-	-	31,726	31,726
At 30 June 2002	996,660	173,304	111,329	110,706	(28,155)	-	339,015	1,702,859

**15. CAPITAL COMMITMENTS**

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

	<b>30.6.2002</b> RMB'000 (Unaudited)	<b>31.12.2001</b> RMB'000 (Audited)
Capital expenditure in respect of construction in progress:		
– contracted but not provided for in the financial statements	109,387	402,278
– authorised but not contracted for	-	91,502
Capital contribution in respect of investment in associates contracted but not provided for in the financial statements	20,675	20,675
	<u>130,062</u>	<u>514,455</u>

**16. PLEDGE OF ASSETS**

At the balance sheet date, the Group had bank deposits amounting to RMB 664,884,000 (31.12.2001: RMB 742,535,000) which were pledged to banks as security for general banking facilities granted to the Group.



## 17. RELATED PARTY TRANSACTIONS

### (i) Related party transactions

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

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

	<b>Six months ended 30 June</b>	
	<b>2002</b>	<b>2001</b>
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of products	28,199	13
Interest expenses paid	—	2,925
Purchase of components and parts	12,642	—
Guarantee given by ultimate holding company	1,029,000	—
	<u>1,069,841</u>	<u>2,938</u>

(b) Associates

	<b>Six months ended 30 June</b>	
	<b>2002</b>	<b>2001</b>
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Purchase of components	2,597	—
Rental income received	9,661	10,483
Sales of products	—	1,543
Processing fee paid	1,157	243
	<u>13,415</u>	<u>12,266</u>

(c) Companies with common directors of the Company

	<b>Six months ended 30 June</b>	
	<b>2002</b>	<b>2001</b>
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of products	170,693	1,833
Purchase of products	—	13,540
	<u>170,693</u>	<u>15,373</u>

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

**17. RELATED PARTY TRANSACTIONS – continued****(ii) Related party balances**

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

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

	<b>30.6.2002</b>	<b>31.12.2001</b>
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Amounts due from fellow subsidiaries	43,376	26,140
Amount due to ultimate holding company	–	79,104
Amounts due to fellow subsidiaries	–	122,457
	<u>43,376</u>	<u>227,691</u>

(b) Associates

	<b>30.6.2002</b>	<b>31.12.2001</b>
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Amount due from an associate	663	327
	<u>663</u>	<u>327</u>

(c) Companies with common directors of the Company

	<b>30.6.2002</b>	<b>31.12.2001</b>
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Amounts due from related companies	199,392	237,058
	<u>199,392</u>	<u>237,058</u>