

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 2002.

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 2002 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 38% and 52% respectively, of the total purchases of the Group for the year ended 31 December 2002. The Group’s single largest customer and the Group’s top five largest consumers accounted for approximately 26% and 59% respectively, of the total turnover of the Group for the year ended 31 December 2002.

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 2002.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2002 are set out in the consolidated income statement on page 24.

DIVIDEND

The Board of Directors did not recommend the payment of any final dividends for the year ended 31 December 2002.

RESERVES

Details of movements during the year ended 31 December 2002 in the reserves of the Group and the Company are set out in consolidated statement of changes in equity on page 28 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 81.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year ended 31 December 2002 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 2002 Number of shares	As at 1 January 2002 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 2002 and the period from 1 January 2003 up to the date of this Annual Report.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, 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 2002.

BORROWINGS AND INTEREST CAPITALISED

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

Interest capitalised by the Group during the year ended 31 December 2002 in respect of construction in progress amounted to RMB7,345,000.

DESIGNATED DEPOSITS AND OVERDUE TIME DEPOSITS

During the year ended 31 December 2002, 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 2002 are set out in notes 17 and 18 respectively, to the financial statements.

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

During the year 2002, 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 2002 and up to the date of this Report, the Directors and their biography are as follows:

Executive Directors

Mr. Wang Zhi, aged 61, is the 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 37 years' of experience in the information technology industry and he is still the honorary president of China Computer Industry Association.

Mr. Wang Zhirong, aged 63, 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 a 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. Mr. Wang holds the title of senior engineer and, as he is an expert, he has been granted a special allowance by the State. Mr. Wang has over 37 years' of experience in the information technology industry. Mr. Wang was previously a vice president of the Company and he resigned from that position on 12 April 2002. Mr. Wang also resigned from his position as an executive director of the Company with effect from 23 April 2003 for retirement.

Mr. Lu Ming, aged 53, 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' of experience in the information technology industry. Mr. Lu was previously also the vice president of the Company, but he resigned from that position with effect from 12 April 2002.

Mr. Tam Man Chi, aged 54, is an executive director and vice president of the Company. He is responsible for the Company's marketing strategy and technology development. Mr. Tam has 34 years' of management experience in the international electronics industry. Mr. Tam was previously also the vice president of the Company, but he resigned from that position with effect from 23 April 2003.

Ms. Huang Rongfang, aged 57, is an 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 34 years' of experience in the information technology.

Mr. Gao Keqin, aged 35, was appointed as an executive director of the Company with effect from 12 April 2002. Mr. Gao Keqin graduated from the Beijing Aeronautics & Astronautics University. In 1990, Mr. Gao worked at the 710 research institute of the Ministry of Aeronautics & Astronautics, after which he worked for China Hewlett Packard 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 GWCSS as its general manager and remains so today.

Mr. Qiao Zhong Tao, aged 59. He graduated from the Beijing Aeronautics & Astronautics University and holds the title of Senior Engineer. He is currently a deputy managing director of Shenzhen Kaifa Technology and has been a director of the Department of Electronics Industry, deputy manager of Zhuzhou Municipal Government and deputy general manager of 深圳希捷公司. He was appointed as a director of the Company with effect from 23 April 2003.

Independent Non-executive Directors

Mr. Li Sanli, aged 67, born in July 1935 in Shanghai, the PRC. He graduated from Tsinghua University in 1955 and obtained his PhD from the Academy of Sciences of the previous USSR in Moscow in 1960.

Mr. Chang Zhenming, aged 46, 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 a MBA degree from the New York Insurance Institute.

Mr. Li Xiaoru, aged 45. 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. Wu Qu Ren, aged 59, was appointed as an independent non-executive director of the Company with effect from 12 April 2002. Mr. Wu obtained his master degree in electrical engineering from Princeton University in 1969 and a MBA degree from the Wharton School in 1979. After which, Mr. Wu 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. Wu then served as the president of Citicorp Investments Inc., and was a vice president at Citicorp Venture Capital Ltd. until 1995. Thereafter, Mr. Wu founded the Sycamore Management Corporation, where he presently serves as its president.

Supervisors

Ms. Wu Alping, aged 46, 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 has been a supervisor of the Company. She ceased to be a supervisor of the Company with effect from 12 April 2002.

Mr. Guan Zhizhan, aged 58, is a supervisor of the Company. He joined the Great Wall Group in 1993 as financial controller of Shenzhen Kaifa Technology. He graduated from Hangzhou Wireless Industry Management Institute in 1965. Mr. Guan has over 37 years' of experience in accounting and finance.

Mr. Di Xiaofeng, aged 41, is a supervisor of the Company. Mr. Di has been the 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 40, is the holder of a MBA degree from Murdoch University, Perth, Australia. Ms. Chen Yanming currently studies the EMBA program offered by the University of Western Ontario. After joining the Great Wall Group in 1993, Ms. Chen had involved in the development of Kaifa Magnetics, the Company and 昂納光通訊公司 and later became the director of the administrative department thereof. Ms. Chen has 11 years' of experience in business administration. She has been the company secretary of Shenzhen Kaifa Technology since 1996 and the Company since 1998. Ms. Chen resigned as the company secretary of the Company in order to comply with provisions of the China Securities Regulatory Commission, and her resignation was passed by the board of directors of the Company on 23 April 2003.

Mr. Lu Ning, aged 44. He obtained the master of engineering degree from Beijing Aeronautics and Astronautics University. He has been the chief operating officer of the Industry Services Group of Siemens (China), senior business development manager of Telecom Industry of Compaq (China) Investment Company Limited, marketing manager of Chips and Software Solutions System Division of Motorola (China), senior business development manager of China Region of Global Smart Card System Division of Motorola (China), project manager in China of Space and System Technology Group of Motorola (China). Mr. Lu was appointed the company secretary of the Company on 23 April 2003.

Senior Management

Ms. Zeng Yanming, aged 56, is the 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 50, is the 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).

Mr. Sima Nai, aged 50, is the vice president of the Company. He graduated from Dong Nan University and holds an electric engineering degree, specialised in electro-vacuum application technique. Mr. Sima also holds a MBA degree from The Macau University of Technology. He is a post graduate and senior engineer. Mr. Sima is a director and deputy manager of Kaifa Magnetics. Mr. Sima has been the assistant engineer, production supervisor, assistant to factory manager of 蘇州電子管廠. He is currently the chairman of 新光電子有限公司, the committee member of the party of 蘇州盤門旅遊開發(集團)有限公司 and deputy general manager of an equity joint venture company, 亦華投資開發公司. Mr. Sima was appointed vice-president by the board as of 23 April 2003. He was appointed as a vice-president by the board of the Company on 23 April 2003.

Mr. Sun Zi Qiang, aged 39, is a vice president of the Company. He graduated from the college with a bachelor degree in Engineering. He has been a director and general manager of 北京長通聯合寬帶網絡技術有限公司, vice-president of 諾定(中國)投資有限公司, executive director of 北京紅帆網神通信技術有限公司, director of China Plus Telecom Co, Ltd (BVI), director of 重慶資訊產業發展有限公司 and director of 上海達因資訊技術股份有限公司. Mr. Sun Zi Qiang was appointed as a vice-president by the board of the Company on 23 April 2003.

GRATITUDE

The board of directors of the Company would like to take this opportunity to fully acknowledge and express its deepest gratitude to the contribution of Mr. Wang Zhirong, Mr. Tan Man Chi and Ms. Chen Yangming to the promotion, reorganization, listing and operation thereafter of the Company during the course of their work.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming shareholders' 2002 annual general meeting, 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 2002.

THE PURCHASE AND SALE OF SHARES BY THE DIRECTORS AND SUPERVISORS

During the year ended 31 December 2002, 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 2002, 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 Shenzhen Kaifa Technology	0.03%
Mr. Wang Zhirong	63,600 employee shares of CGC	0.01%
	35,699 employee shares of Shenzhen Kaifa Techonology	0.005%
Mr. Lu Ming	63,600 employee shares of CGC	0.01%
Mr. Tam Man Chi	714,025 employee shares of Shenzhen Kaifa Technology	0.097%
Ms. Huang Rongfang	63,600 employee shares of CGC	0.01%
	278,512 assigned Legal Person Shares of Shenzhen Kaifa Technology	0.037%

2. Corporate Interests

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

Note:

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

Save as disclosed above, as at 31 December 2002, 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 Securities (Disclosure of Interests) Ordinance ("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 2002 are set out in note 10 to the financial statements.

CONNECTED TRANSACTIONS

During the year 2002, the Group entered into the following transactions:

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

	2002 RMB'000
Sales of products	633
Interest expenses paid	449
Purchase of components and parts	17,369
Guarantees given by ultimate holding company	1,100,000
Guarantees given by a fellow subsidiary	10,000

(b) Associates

	2002 RMB'000
Sales of products	1,448,317
Rental income received	21,698
Processing fee paid	4,478
Purchase of components and parts	116,051
License fee paid	13,243
Acquired patent and technology	130,082

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

Litigation concerning the Company's subsidiary CGC:

Litigation between CGC, Sichuan Yingtong Computer System Co., Ltd. ("Yingtong") and Chengdu Commercial Bank ("Chengdu Bank"):

The subject matter of case involved 15 bills of exchange of RMB33,639,650 in principal and 7 bills of exchange with an interest of RMB1,078,638.75. The People's Supreme Court (recorded as "(2001) Zhi Zi No.21") adjudicated that the civil judgment issued by the People's High Court of Sichuan ("Sichuan High Court") (recorded as "(2000) Chuan Jing Chu Zi No.17") was legally valid, Yingtong was liable to compensate the Company for the amount of principal stated on the 15 bills of exchange together with the interest incurred thereby, and Chengdu Bank was to assume joint responsibility in compensation. An application has been made with the Sichuan High Court for the enforcement of the said judgment, and Sihcuan High Court has accepted to handle the case (2001) Chuan Zhi Zi No.21.

Chengdu Bank objected to the above judgment and appealed to Sichuan High Court for re-trial. According to the verdict thereof (recorded as “(2001) Chuan Jing Jian Zi No.53”), the case was set for re-trial upon reorganization of the jury and execution of the original verdict would be suspended during the re-trial period. On 27 February 2002, Sichuan High Court retried the case but Chengdu Bank was unable to tender new evidence, Sichuan High Court therefore selected another date to announce the verdict. On 8 April 2002, Sichuan High Court adjudicated through the civil verdict (recorded as “(2001) Chuan Jing Zai Chu Zi No.2”) that action concerning the case had come to an end. The situation had been disclosed in the 2000 Annual Report, 2001 Interim Report, 2001 Annual Report and 2002 Interim Report respectively. As at this date, no new document or notice in writing from the judiciary department has yet been received by CGC.

Progress concerning the litigation between CGC, Yingtong and Chengdu Bank:

The subject matter of the case involved the payment of goods of RMB9,220,733. Upon the acceptance for handling by the People’s Intermediate Court of Chengdu City, a civil verdict (recorded as “(2000) Cheng Jing Chu Zi Nos.489, 568”) was issued to hold that the Company was entitled to be repaid for more than RMB2,000,000 in debt, and an application for enforcement was immediately filed with the People’s Intermediate Court of Chengdu City. At the same time, CGC had filed an appeal with the People’s Supreme Court. The situation had been disclosed in the 2000 Annual Report, 2001 Interim Report, 2001 Annual Report and 2002 Interim Report respectively. The People’s Supreme Court has issued a notice in writing to agree to a review therefore. At present, the case is being investigated by the Investigation Supervision Team of the People’s Supreme Court of Sichuan Province. It is hoped that new trial arrangements could shortly be made such that the case could proceed to trial and supervision process. CGC has allocated approximately RMB7,000,000 in accrual to the bad debt reserve in respect of this case.

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 Mr. Wang Zhi, Mr. Li Xiaoru and Mr. 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 2002, the Audit Committee held two meetings, with both meetings held on 23 April 2003 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 2002, in compliance with the Code of Best Practice set out in Appendix 14 of the Listing Rules.

AUDITORS

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

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

By order of the Board of Directors

Wang Zhi

Chairman

Shenzhen, PRC

23 April 2003