

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 were 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 17.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

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, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these Standards has resulted in a change in the format of presentation of the cash flow statement, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (Continued)

Foreign currencies

The revisions to SSAP 11 “Foreign Currency Transaction” have eliminated the choice of translating the income statements of overseas operations at the closing rate for the year, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Cash flow statements

In the current year, the Group has adopted SSAP 15 (Revised) “Cash Flow Statement”. Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as investing and financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of overseas operations have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date.

Employee benefits

In the current year, the Group has adopted SSAP 34 “Employee Benefits”, which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 acquisitions 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 acquisitions 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Patent

Patents are stated at cost less impairment loss. They are amortised over their estimated useful lives.

Technology acquired

Technology acquired is stated at cost less impairment loss. It is amortised over its estimated useful lives.

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.

Negative goodwill arising on acquisition after 1 January 2001 is presented as deduction from assets. To the extent that such 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

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 assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

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.

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:

	2002 RMB'000	2001 RMB'000
Sales of goods	8,733,474	5,801,783
Technical services income	9,106	13,404
	8,742,580	5,815,187

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three 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 SEGMENTS (Continued)

Business segments (Continued)

Segment information about these businesses is presented below:

	For the year ended 31 December 2002						
	Continuing operation				Discontinuing operation		
	PC and PC peripheral products RMB'000	HDD and related products RMB'000	Others RMB'000	Eliminations* RMB'000	Network transmission and add-on products RMB'000	Provision of broadband network services RMB'000	Consolidated RMB'000
SEGMENT REVENUE							
External sales	2,008,321	6,697,698	–	–	–	36,561	8,742,580
Inter-segment sales	33,474	858,954	–	(892,428)	–	–	–
Total revenue	2,041,795	7,556,652	–	(892,428)	–	36,561	8,742,580
SEGMENT RESULTS	(283,673)	262,071	–	–	–	(22,811)	(44,413)
Unallocated other operating income							19,610
Loss from operations							(24,803)
Gain on deemed disposal of subsidiaries	–	8,742	–	–	–	96,746	105,488
Gain on disposal of partial interest in an associate	36,646	–	–	–	–	–	36,646
Gain on deemed disposal of an associate	–	3,787	–	–	–	–	3,787
Finance costs	–	–	–	–	–	–	(113,251)
Share of results of associates	290,144	2,140	(97,865)	–	–	–	194,419
Impairment loss of goodwill arising on acquisition of an associate	–	(72,003)	–	–	–	–	(72,003)
Profit before taxation							130,283
Taxation							(61,143)
Profit after taxation							69,140

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

Notes to the Financial Statements

For the year ended 31 December 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

	As at 31 December 2002					
	Continuing operation			Discontinuing operation		
	PC and PC peripheral products RMB'000	HDD and related products RMB'000	Others RMB'000	Network transmission and add-on products RMB'000	Broadband network services RMB'000	Consolidated RMB'000
ASSETS						
Segment assets	1,881,769	4,852,030	–	–	–	6,733,799
Interests in associates	407,024	35,192	224,495	–	–	666,711
Investments in securities	–	–	48,437	–	–	48,347
Bank balances and cash	380,495	1,951,775	–	–	–	2,332,270
Consolidated total assets						9,781,127
LIABILITIES						
Segment liabilities (excluding minority interests)	1,027,236	1,617,415	–	–	–	2,644,651
Unallocated liabilities						2,500,553
						5,145,204
	For the year ended 31 December 2002					
	Continuing operation			Discontinuing operation		
	PC and PC peripheral products RMB'000	HDD and related products RMB'000	Others RMB'000	Network transmission and add-on products RMB'000	Broadband network services RMB'000	Consolidated RMB'000
OTHER INFORMATION						
Capital additions	97,730	715,078	–	–	2,270	815,078
Depreciation and amortisation	20,317	224,030	–	–	13,655	258,002
Impairment losses recognised in respect of property, plant and equipment	4,195	15,075	–	–	–	19,270
Impairment loss recognised in respect of intangible assets	–	4,510	–	–	–	4,510

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

	For the year ended 31 December 2001						
	Continuing operation				Discontinuing operation		Consolidated
	PC and PC peripheral products RMB'000	HDD and related products RMB'000	Others RMB'000	Eliminations* RMB'000	Network transmission and add-on products RMB'000	Provision of broadband network services RMB'000	
SEGMENT REVENUE							
External sales	1,993,985	3,724,515	–	–	75,083	21,604	5,815,187
Inter-segment sales	95,137	661,430	–	(756,567)	–	–	–
Total revenue	2,089,122	4,385,945	–	(756,567)	75,083	21,604	5,815,187
SEGMENT RESULTS	(145,667)	64,656	–	–	(39,590)	(145,668)	(266,269)
Unallocated other operating income							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.

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5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

	As at 31 December 2001					
	Continuing operation			Discontinuing operation		
	PC and PC peripheral products RMB'000	HDD and related products RMB'000	Others RMB'000	Network transmission and add-on products RMB'000	Broadband network services RMB'000	Consolidated RMB'000
ASSETS						
Segment assets	597,426	4,499,745	–	195,172	1,717,060	7,009,403
Interests in associates	465,679	–	42,400	–	6,912	514,991
Investments in securities	–	–	94,925	–	–	94,925
Bank balances and cash	1,275,149	982,996	–	121,540	120,342	2,500,027
Consolidated total assets						10,119,346
LIABILITIES						
Segment liabilities (excluding minority interests)	707,801	662,322	–	160,705	908,690	2,439,518
Unallocated liabilities						3,201,471
						5,640,989

	For the year ended 31 December 2001					
	Continuing operation			Discontinuing operation		
	PC and PC peripheral products RMB'000	HDD and related products RMB'000	Others RMB'000	Network transmission and add-on products RMB'000	Broadband network services RMB'000	Consolidated RMB'000
OTHER INFORMATION						
Capital additions	224,412	261,342	–	19,532	1,375,265	1,880,551
Depreciation and amortisation	29,900	156,356	–	586	15,614	202,456
Impairment losses recognised in respect of property, plant and equipment	6,063	–	–	–	–	6,063

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (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	
	2002 RMB'000	2001 RMB'000
The PRC	3,529,373	2,500,119
Asia Pacific (excluding the PRC)	4,923,997	2,155,062
North America	288,606	1,155,772
Others	604	4,234
	8,742,580	5,815,187

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		Capital additions	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
The PRC (other than Hong Kong)	7,554,989	8,193,491	814,060	1,879,635
Hong Kong	2,216,342	1,920,513	984	213
Others	9,796	5,342	34	703
	9,781,127	10,119,346	815,078	1,880,551

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For the year ended 31 December 2002

6. OTHER OPERATING INCOME

	2002 RMB'000	2001 RMB'000
Included in other revenue are as follows:		
Dividend income from other investments	19,610	37,716
Interest income	34,049	58,710
Rental income, net of outgoings of RMB23,526,970 (2001: RMB17,036,000)	21,385	18,175
Value Added Tax refund	14,331	–
Gain on disposal of other investments	–	197

7. LOSS FROM OPERATIONS

	2002 RMB'000	2001 RMB'000
Loss from operations has been arrived at after charging:		
Auditors' remuneration	4,667	4,587
Amortisation of goodwill (included in administrative expenses)	442	606
Amortisation of intangible assets (included in administrative expenses)	2,367	–
Depreciation and amortisation of property, plant and equipment		
– owned assets	252,993	199,383
– assets held under finance leases	2,200	2,467
Impairment loss on intangible assets (included in administrative expenses)	4,510	–
Loss on disposal and write off of property, plant and equipment	296	2,787
Operating lease rentals in respect of land and buildings	21,277	41,455
Research and development expenses	52,473	29,840
Staff costs (including retirement benefit costs (note 8) and directors' remuneration (note 10))	314,673	339,041

8. RETIREMENT BENEFIT COSTS

The retirement benefit costs calculated based on 5% to 13% of employee's salaries was charged to the income statement represent contributions payable by the Group to the retirement scheme amounting to RMB17,013,000 (2001: RMB15,086,000). There were no forfeited contribution for current year (2001: Nil).

There were no forfeited contributions available as at 31 December 2002 (2001: Nil) to reduce future contributions.

9. FINANCE COSTS

	2002 RMB'000	2001 RMB'000
Interest on:		
Bank and other borrowings wholly repayable within five years	119,178	149,255
Finance leases	969	2,146
Amount due to ultimate holding company	449	4,908
Total borrowing costs	120,596	156,309
Less: Amount capitalised in construction in progress	(7,345)	(39,037)
	113,251	117,272

The amount capitalised during the year arose on the Group's borrowings and is calculated by applying capitalisation rates ranging from 4.05% to 5.9% (2001: 5.9% to 7%) to expenditure on qualifying assets.

10. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration:

	2002 RMB'000	2001 RMB'000
Fees	800	600
Other emoluments:		
Salaries and other benefits	4,297	5,199
Performance related incentive payments	1,207	1,122
Contributions to retirement benefits schemes	230	217
	6,534	7,138

The amounts disclosed above included the directors' fees and other emoluments of RMB300,000 (2001: RMB200,000) paid to independent non-executive directors for the year ended 31 December 2002.

The emoluments of the directors were within the following bands:

	Number of directors	
	2002	2001
Nil to RMB1,000,000	7	6
RMB1,000,001 to RMB2,000,000	–	1
RMB3,000,001 to RMB4,000,000	–	1
RMB4,000,001 to RMB5,000,000	1	–
	8	8

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

(b) Supervisors' remuneration:

	2002 RMB'000	2001 RMB'000
Fees	100	150
Other emoluments:		
Salaries and other benefits	170	300
Performance related incentive payments	10	20
Contributions to retirement benefits schemes	10	6
	290	476

The emoluments of the supervisors were within the following band:

	Number of supervisors	
	2002	2001
Nil to RMB1,000,000	2	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 one director (2001: two directors) of the Company and details of whose emoluments are disclosed in 10(a) above.

The emoluments of the remaining individuals were as follows:

	2002 RMB'000	2001 RMB'000
Salaries and other benefits	7,869	5,029
Performance related incentive payments	2,079	2,633
Contributions to retirement benefits schemes	218	283
	10,166	7,945

The emoluments of these individuals were within the following bands:

	Number of employees	
	2002	2001
RMB1,000,000 to RMB2,000,000	1	–
RMB2,000,001 to RMB3,000,000	2	3
RMB3,000,001 to RMB4,000,000	1	–
	4	3

11. TAXATION

	2002 RMB'000	2001 RMB'000
The taxation charge comprises:		
Current year		
PRC income tax	25,031	26,053
Hong Kong Profits Tax	9,557	7,648
Underprovision in prior years	–	2,438
	34,588	36,139
Deferred taxation credit (<i>note 28</i>)	–	(42)
Taxation attributable to the Company and its subsidiaries	34,588	36,097
Share of taxation of associates	26,555	20,519
	61,143	56,616

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% (2001: 16%) of the estimated assessable profit for the year.

Details of deferred taxation are set out in note 28.

12. DIVIDEND

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

13. BASIC EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share is based on the net profit for the year of approximately RMB53,654,000 (2001: net loss of RMB135,586,000) and on 1,197,742,000 (2001: 1,197,742,000) shares in issue during the year.

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14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings				Plant, machinery and equipment	Motor vehicles	Total
	Construction in progress	Situated in Hong Kong under medium-term lease	Situated in the PRC under medium-term land use rights	Staff quarters situated in the PRC under medium-term land use rights			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
THE GROUP							
COST OR VALUATION							
At 1 January 2002	1,642,915	12,032	968,060	145,614	1,606,948	21,137	4,396,706
Additions	188,848	–	–	–	493,029	3,119	684,996
Disposals of subsidiaries	(1,092,491)	–	(1,687)	–	(368,916)	(967)	(1,464,061)
Disposals and write off	(65,663)	(1,757)	–	–	(217,873)	(1,294)	(286,587)
Transfer	(284,654)	–	9,613	–	275,041	–	–
At 31 December 2002	388,955	10,275	975,986	145,614	1,788,229	21,995	3,331,054
Comprising:							
At cost	388,955	–	9,613	145,614	1,788,229	21,995	2,354,406
At valuation – 1999	–	10,275	691,175	–	–	–	701,450
At directors' valuation – 2001	–	–	275,198	–	–	–	275,198
	388,955	10,275	975,986	145,614	1,788,229	21,995	3,331,054
DEPRECIATION AND AMORTISATION/IMPAIRMENT							
At 1 January 2002	–	3,353	61,802	8,140	568,080	12,362	653,737
Provided for the year	1,278	1,195	24,191	4,682	221,674	2,173	255,193
Disposals of subsidiaries	–	–	–	–	(37,169)	(138)	(37,307)
Eliminated on disposals and write off	–	(659)	–	–	(24,847)	(398)	(25,904)
Impairment loss for idle assets*	–	–	–	–	19,224	46	19,270
At 31 December 2002	1,278	3,889	85,993	12,822	746,962	14,045	864,989
NET BOOK VALUES							
At 31 December 2002	387,677	6,386	889,993	132,792	1,041,267	7,950	2,466,065
At 31 December 2001	1,642,915	8,679	906,258	137,474	1,038,868	8,775	3,742,969

* During the year, the directors have reviewed the recoverable amount of certain idle property, plant and equipment, resulting in the identification of impairment losses for the year ended 31 December 2002 amounting to RMB19,270,000 (2001: RMB6,063,000). These impairment losses have been recognised in full in the current year.

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 RMB701,450,000. In the opinion of the directors, the fair value of the land and building at 31 December 2002 is not materially different from this valuation.

Certain land and buildings located in the PRC were acquired or completed in late 2001. Therefore the directors are of the opinion that their net book value of RMB261,556,000 are not materially different from market value as at 31 December 2002. The remaining land and buildings located in the PRC were completed in 2002 and the directors are in the opinion that this amount is not material and no valuation performed.

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 RMB896 million (2001: RMB928 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 (2001: RMB188 million) and accumulated depreciation and amortisation of RMB20 million (2001: RMB15 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 RMB25,895,000 (2001: RMB48,383,000).

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

The net book value of plant and machinery includes an amount of RMB8,800,000 (2001: RMB60,992,000) 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 2002	252,524	66,248	1,736	320,508
Additions	60,742	200	–	60,942
Disposals	(908)	(61,583)	(158)	(62,649)
At 31 December 2002	312,358	4,865	1,578	318,801
DEPRECIATION				
At 1 January 2002	–	20,819	659	21,478
Provided for the year	–	234	263	497
Eliminated on disposals	–	(20,433)	(50)	(20,483)
At 31 December 2002	–	620	872	1,492
NET BOOK VALUES				
At 31 December 2002	312,358	4,245	706	317,309
At 31 December 2001	252,524	45,429	1,077	299,030

Included in construction in progress of the Company at the balance sheet date is interest capitalised of RMB17,883,000 (2001: RMB10,538,000).

15. GOODWILL

	THE GROUP RMB'000
COST	
Balances at 31 December 2002 and 2001	<u>6,063</u>
AMORTISATION	
At 1 January 2002	606
Provided for the year	<u>442</u>
At 31 December 2002	<u>1,048</u>
NET BOOK VALUES	
At 31 December 2002	<u>5,015</u>
At 31 December 2001	<u>5,457</u>

Goodwill is amortised over ten years.

16. INTANGIBLE ASSETS

	Patents RMB'000	Technology acquired RMB'000	Total RMB'000
COST			
Acquired during the year and balance at 31 December 2002	<u>47,334</u>	<u>82,748</u>	<u>130,082</u>
AMORTISATION AND IMPAIRMENT			
Amortised during the year	2,367	–	2,367
Impairment loss	–	4,510	4,510
Balance at 31 December 2002	<u>2,367</u>	<u>4,510</u>	<u>6,877</u>
NET BOOK VALUE			
At 31 December 2002	<u>44,967</u>	<u>78,238</u>	<u>123,205</u>

Patents are amortised over 10 years.

Technology acquired is amortised over the estimated units to be produced using the technology.

Impairment loss represents one of a technology acquired for product "Blanca, Eldorado & Vega" and in the opinion of directors, this product would not bring any economic value to the Group and according impairment loss of related technology was made.

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For the year ended 31 December 2002

17. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2002 RMB'000	2001 RMB'000
At cost		
Listed shares in the PRC	1,218,670	1,218,670
Unlisted investments in the PRC	426,106	328,632
	1,644,776	1,547,302
Market value of listed shares in the PRC	6,705,481	8,613,385

Details of the Company's principal subsidiaries as at 31 December 2002 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 the Company	subsidaries	Equity interest attributable to the Group	Principal activities
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
長城計算機軟件與系統 有限公司 Great Wall Computer Software and System Incorporation Limited	PRC **	RMB100,000,000	58.35%	40%	82.54%	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

17. 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		Equity interest attributable to the Group	Principal activities
深圳市開發磁記錄有限公司 Shenzhen Kaifa Magnetics 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
商網通電子商務有限公司 Sowant E-commerce Co., Ltd.	PRC **	RMB50,000,000	–	90%	54.11%	Provision of e-commerce business
深圳易拓科技有限公司 ExcelStor Technology (Shenzhen) Limited	PRC ##	US\$26,600,000	61.65%	–	61.65%	Manufacturing of hard disk drives business
ExcelStor Great Wall Technology Limited	Cayman Island	US\$25,000,000	60%	–	60%	Investment holding

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

** Companies incorporated as private owned limited company in the PRC.

Companies incorporated as equity jointly controlled entity.

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 subsidiaries 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.

Notes to the Financial Statements

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18. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Unlisted shares, at cost less impairment losses	–	–	232,781	22,781
Share of net assets	666,711	514,991	–	–
Goodwill on acquisition	72,003	–	–	–
	738,714	514,991	232,781	22,781
Less: Impairment loss of goodwill on acquisition	(72,003)	–	–	–
	666,711	514,991	232,781	22,781

Impairment loss on goodwill on acquisition has been made in the financial statements as in the opinion of directors the goodwill acquired would not bring any future economic value to the Group.

Details of the Group's principal associates as at 31 December 2002 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
長城寬帶網絡服務有限公司 Great Wall Broadband Network Service Co., Ltd. ("GWB") #	PRC	35%	15%	43.73%	Provision of broadband network servicing

18. INTERESTS IN ASSOCIATES (Continued)

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
長城國際信息產品(深圳)有限公司 International Information Products (Shenzhen) Co., Ltd. ("IIPC") #	PRC	–	20%*	12.09%	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
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 #	PRC	–	20%	12.09%	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

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18. INTERESTS IN ASSOCIATES (Continued)

Name of entity	Place of establishment and operation	Percentage of registered capital held by the		Equity interest attributable to the Group	Principal activities
		Company	subsidiaries		
昂納光通訊有限公司 O-Net Communications Limited ("O-net") [#]	Cayman Islands	–	46.46%	25.99%	Investment holding
昂納香港有限公司 O-Net Communications (HK) Limited [#]	Hong Kong	–	46.46%	25.99%	Trading of fiber optic components
昂納信息技術(深圳)有限公司 O-Net Communications (Shenzhen) Ltd. [#]	PRC	–	46.46%	25.99%	Manufacture of fiber optic parts for optical communications networks
深圳昂納晶體有限公司 Shenzhen O-Net Crystal Technology Ltd. [#]	PRC	–	46.46%	25.99%	Manufacture of crystal parts for optical communications networks
昂納光集成按技術有限公司 O-Net Integrated Technology (Shenzhen) Ltd. [#]	PRC	–	46.46%	25.99%	Manufacture of integrated parts for optical communications networks

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

^{*} During the year, the Group disposed of 10% interest in this associate resulting in a disposal gains of RMB36,646,000.

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.

18. INTERESTS IN ASSOCIATES (Continued)

The following details have been extracted from the audited financial statements or unaudited management accounts.

Operating results for the years ended 31 December 2002 and 2001:

	GWB*		IIPC		Shenzhen GKI		Beijing GKI	
	2002	2001	2002	2001	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	135,183	21,604	15,508,514	10,229,294	1,125,214	1,971,273	4,196,152	5,264,396
Depreciation and amortisation	14,703	15,538	21,025	18,443	12,370	29,040	26,621	36,114
(Loss) profit from ordinary activities before taxation	(153,265)	(152,902)	1,271,881	900,571	(20,363)	26,659	(8,667)	69,117
Taxation	(21)	(26,053)	(132,777)	(68,379)	-	(2,244)	-	-
(Loss) profit from ordinary activities after taxation	(153,286)	(178,955)	1,139,106	832,192	(20,363)	24,415	(8,667)	69,117
(Loss) profit attributable to the Group	(76,643)	(89,475)	227,821	249,658	(6,109)	7,325	(2,600)	20,735

Notes to the Financial Statements

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18. INTERESTS IN ASSOCIATES (Continued)

Financial positions as at 31 December 2002 and 2001:

	GWB*		IIPC		Shenzhen GKI		Beijing GKI	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Total non-current assets	1,445,244	1,557,596	111,247	94,695	65,781	95,274	88,768	122,566
Total current assets	266,595	395,462	5,561,327	3,565,002	283,648	224,935	432,717	906,425
Total liabilities	(1,279,794)	(1,858,846)	(4,417,033)	(2,694,360)	(251,665)	(141,497)	(448,898)	(883,704)
Shareholders' funds	432,045	94,212	1,255,541	965,337	97,764	178,712	72,587	145,287
Shareholders' funds attributable to the Group	216,023	82,399	251,108	289,601	29,329	53,614	21,776	43,586
Contingent liabilities as at 31 December	-	-	-	-	-	-	-	-

* GWB was a former subsidiary of the Company in 2001 and 2001 figures are for comparison purpose.

19. INVESTMENTS IN SECURITIES

	THE GROUP	
	2002 RMB'000	2001 RMB'000
Other investments comprise:		
Unlisted equity investments in the PRC	48,347	94,925

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

20. DEPOSIT

Deposit represented investment cost paid to acquire an associate being acquired during the year in note 18.

21. INVENTORIES

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	340,403	393,772	–	11,816
Work in progress	82,217	88,854	–	–
Finished goods	315,161	360,850	–	70
Spare parts and consumables	4,446	2,490	–	–
	742,227	845,966	–	11,886

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	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	229,120	177,497	–	11,816
Work in progress	430	4,739	–	–
Finished goods	294,148	195,828	–	70
	523,698	378,064	–	11,886

Cost of inventories recognised in the income statement was RMB7,897,552,000 (2001: RMB5,280,283,000).

22. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE

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

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

	THE GROUP	
	2002	2001
	RMB'000	RMB'000
Within 90 days	1,579,645	1,303,514
91 – 180 days	223,854	67,176
181 – 365 days	96,396	90,906
Over 365 days	134,557	116,814
	2,034,452	1,578,410

Included in trade and other receivables is an amount of approximately RMB33,600,000 (2001: 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 allowance for doubtful debts in respect of the amount of RMB33,600,000 receivable has been recognised in the financial statements.

22. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE (Continued)

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

	THE GROUP	
	2002	2001
	RMB'000	RMB'000
Within 90 days	27,313	30,614
91 – 180 days	28,316	2,093
181 – 365 days	–	20
	55,629	32,727

(c) Included in trade and other receivables of the Group is an amount of approximately RMB26,000,000 which is owned by E-Tek Dynamics, Inc. ("E-Tek"). The Group is contemplating to pursue legal proceedings against E-Tek for recovery of the debt. In the opinion of directors, the Group has a good case against E-Tek and accordingly, no provision has been made in the financial statements.

23. 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 aged analysis:

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	2,041,699	1,103,280	–	33
91 – 180 days	5,303	258,581	–	–
181 – 365 days	1,794	60,773	–	1
Over 365 days	18,301	10,950	204	203
	2,067,097	1,433,584	204	237

23. TRADE AND OTHER PAYABLES AND BILLS PAYABLE (Continued)

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

	THE GROUP	
	2002	2001
	RMB'000	RMB'000
Within 90 days	124,520	203,624
91 – 180 days	9,240	110,753
181 – 365 days	–	5,071
	133,760	319,448

24. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Bank and other borrowings				
Secured	549,029	552,700	550,000	470,000
Unsecured	1,940,818	2,576,400	240,000	200,000
	2,489,847	3,129,100	790,000	670,000
Bank and other borrowings comprise:				
Bank borrowings	2,287,847	2,918,100	790,000	670,000
Other borrowings	202,000	211,000	–	–
	2,489,847	3,129,100	790,000	670,000
The maturity of bank and other borrowings is as follows:				
On demand or within one year	2,061,318	1,846,700	790,000	470,000
More than one year but not exceeding two years	241,500	1,282,400	–	200,000
More than two years but not exceeding five years	187,029	–	–	–
	2,489,847	3,129,100	790,000	670,000
Less: Amount due within one year and shown under current liabilities	(2,061,318)	(1,846,700)	(790,000)	(470,000)
Amount due after one year	428,529	1,282,400	–	200,000

The above borrowings bear interest ranging from 4.0% to 5.8% (2001: 4.1% to 7.0%) per annum.

At the balance sheet date, approximately RMB1,110,000,000 (2001: RMB1,090,000,000) 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.

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25. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payment		Present value of minimum lease payment	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Amount payable under finance leases:				
Within one year	5,938	23,942	5,066	21,154
More than one year but not exceeding two years	5,869	23,942	5,524	21,154
More than two years but not exceeding five years	–	5,509	–	4,868
	11,807	53,393	10,590	47,176
Less: Future finance charges	(1,217)	(6,217)	–	–
Present value of lease obligations	10,590	47,176	10,590	47,176
Less: Amount due for settlement within one year and shown under current liabilities			(5,066)	(21,154)
Amount due for settlement after one year			5,524	26,022

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is two years (2001: three years).

25. OBLIGATIONS UNDER FINANCE LEASES (Continued)

For the year ended 31 December 2002, the average effective borrowing rate was 10% (2001: 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.

26. 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 2001, balance at			
31 December 2001 and 31 December 2002	743,870	453,872	1,197,742

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

27. RESERVE

- (a) 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.
- (b) 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.

27. RESERVE (Continued)

- (c) 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.

- (d) 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.

At 31 December 2002, the Company has distributable profits amounting to RMB35,932,000 under HK GAAP. However, the Company has no distributable profits under PRC accounting standard as at 31 December 2002.

The Company had no distributable profits at 31 December 2001 under both HK GAAP and PRC accounting standard.

28. DEFERRED TAXATION

	THE GROUP	
	2002 RMB'000	2001 RMB'000
At 1 January	–	42
Credit for the year (<i>note 11</i>)	–	(42)
At 31 December	–	–

At 31 December 2001, 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.

29. DISPOSALS OF SUBSIDIARIES

(a)

	2002 RMB'000	2001 RMB'000
Net assets disposed of		
Property, plant and equipment	1,426,754	—
Inventories	44,353	—
Trade and other receivables	246,330	—
Amount due from immediate holding company	782	—
Pledged bank deposits	51,103	—
Bank balances and cash	79,138	—
Trade and other payables	(388,542)	—
Bills payables	(276,495)	—
Amount due to intermediate holding company	(35,839)	—
Taxation payable	(26,689)	—
Bank and other borrowings	(876,900)	—
Obligations under finance leases	(41,242)	—
Minority interests	(42,161)	—
Net assets	160,592	—
Gain on deemed disposals of subsidiaries	105,488	—
	266,080	—
Satisfied by:		
Interest in associates	266,080	—
Net cash outflow arising on disposal		
Bank balances and cash disposed of	79,138	—

The subsidiaries disposed of during the year mainly engaged in the provision of broadband network services and provision of network transmission and add-on products and did not have any significant impact on the Group's cash flows or operating results.

During the year, these disposed subsidiaries raised fund by third parties' capital injection, resulting in dilution of the Group's interests in these companies. These companies became associates and deemed gains arose.

29. DISPOSALS OF SUBSIDIARIES (Continued)

- (b) During the year, the Group entered into a agreement with third party who injected additional capital into GWBNS which was engaged in providing broadband network services. The deemed disposal was completed on 15 May 2002, on which date capital injection made by third party was concluded.

The results of GWB from 1 January 2002 to 15 May 2002, based on unaudited management accounts (as audited financial statements for the period are not available), were as follows:

	1.1.2002 to 15.5.2002 RMB'000	Year ended 31.12.2001 RMB'000
Turnover	36,561	21,604
Cost of sales	(39,215)	(70,468)
Other operating income	370	927
Distribution costs	(5,398)	(15,593)
Administrative expenses	(15,129)	(82,138)
Loss from operations	(22,811)	(145,668)
Finance costs	(5,895)	(11,794)
Loss before taxation	(28,706)	(157,462)
Taxation	–	(26,053)
Loss after taxation	(28,706)	(183,515)
Minority interests	2,941	(8,232)
Loss for the year	(25,765)	(191,747)

29. DISPOSALS OF SUBSIDIARIES (Continued)

In addition, the Group also discontinued the provision of network transmission and add-on products upon the deemed disposal of O-net at 1 January 2002 as O-net issued capital to outsiders. The results of O-net for the year ended 31 December 2001 based on its audited financial statements are as follows:

	2002 RMB'000	2001 RMB'000
Turnover	–	75,083
Cost of sales	–	(70,785)
Other operating income	–	6,033
Distribution costs	–	(4,205)
Administrative expenses	–	(45,716)
Loss from operations	–	(39,590)
Finance costs	–	(2,992)
Loss before minority interests	–	(42,582)
Minority interests	–	3,942
Loss for the year	–	(38,640)

The gains of deemed disposal of GWB and O-net were disclosed in note 29(a).

30. ACQUISITION OF A SUBSIDIARY

	2002 RMB'000	2001 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

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 RMB11,000,000 (2001: RMB63,461,000).

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For the year ended 31 December 2002

32. CAPITAL COMMITMENTS

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

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	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	61,915	402,278	16,983	85,320
– authorised but not contracted for	–	91,502	–	–
Capital contribution in respect of investment in associates:				
– contracted but not provided for in the financial statements	16,540	20,675	–	–
	78,455	514,455	16,983	85,320

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	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	8,089	36,694	–	3,296
In the second to fifth year inclusive	12,918	118,585	–	325
	21,007	155,279	–	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 during the year was RMB44,912,000 (2001: RMB35,211,000).

These properties are expected to generate rental yield of 2.7% and have committed tenants of average 1 to 2 years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2002	2001
	RMB'000	RMB'000
Within one year	10,307	12,051
In the second to fifth year inclusive	11,035	–
After five years	171	–
	21,513	12,051

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	
	2002	2001
	RMB'000	RMB'000
Guarantees given to financial institutions in respect of banking facilities granted to a customer	61,500	7,300
Guarantees given to financial institutions in respect of banking facilities granted to associates	545,000	–

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 RMB670,829,000 (2001: RMB742,535,000) and RMB615,204,000 (2001: RMB632,807,000), respectively, pledged to banks to secure general banking facilities granted to the Group.

36. 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

	2002	2001
	RMB'000	RMB'000
Sales of products	633	57,181
Interest expenses paid	449	4,908
Trademark licensing fee paid	–	1,798
Purchase of components and parts	17,369	5,366
Guarantees given by ultimate holding company	1,100,000	1,040,000
Guarantees given by a fellow subsidiary	10,000	50,000

36. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)**(i) Related party transactions (Continued)****(b) Associates**

	2002	2001
	RMB'000	RMB'000
Sales of products	1,448,317	–
Rental income received	21,698	19,723
Processing fee paid	4,478	283
Purchase of components and parts	116,051	8,068
Finance lease charge paid	–	2,146
License fee paid	13,243	–
Acquired patent and technology	130,082	–

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

	2002	2001
	RMB'000	RMB'000
Sales of products	–	276,162
Purchase of products	–	102,890

The above transactions were carried out at cost plus a percentage profit mark-up or terms agreed by the parties.

36. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(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	
	2002	2001
	RMB'000	RMB'000
Amounts due from fellow subsidiaries	14,071	26,140
Amount due to ultimate holding company	–	79,104
Amounts due to fellow subsidiaries	–	122,457

(b) Associates:

	THE GROUP	
	2002	2001
	RMB'000	RMB'000
Amounts due from associates	810,596	327
Amount due to an associate	174,398	–

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

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from related companies	–	237,058	–	194,989

(d) Subsidiaries of the Company:

	THE COMPANY	
	2002	2001
	RMB'000	RMB'000
Amounts due from subsidiaries	80,254	607
Amounts due to subsidiaries	112,599	182,596