

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2003

1. GENERAL

The Company is a sino-foreign joint venture joint stock limited company established in PRC on 20 March 1998. The Company's ultimate holding company is Great Wall Group, a state-owned enterprise established in the PRC.

The Company's shares were listed on the Hong Kong Stock Exchange on 5 August 1999.

The Group is 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 ("SSAP") No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA") and applicable disclosure requirements as set out in Appendix 16 to the Rules Governing the Listing of Securities on Hong Kong Stock Exchange.

3. ACCOUNTING POLICIES/ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

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

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 2002, except as described below.

Income Taxes

For the Period, the Group has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provisions were made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.

4. BUSINESS SEGMENT INFORMATION

For management purposes, the Group is currently organised into two main operating segments, manufacture and sale of personal computers ("PC") and PC peripheral products, hard disk drives ("HDD") and related products.

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

Segment information about these businesses is presented below:

	Six months ended 30 June 2003					
	Continuing operations			Discontinuing operations		
	PCs and PC peripheral products RMB'000	HDDs and related products 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 revenue	846,282	4,446,901	—	—	—	5,293,183
Inter-segment revenue (Note)	1,153	848,039	(849,192)	—	—	—
Total revenue	847,435	5,294,940	(849,192)	—	—	5,293,183
SEGMENT RESULTS	(85,239)	200,395	—	—	—	115,156
Unallocated other revenue						—
Profit from operations						115,156

	Six months ended 30 June 2002					
	Continuing operations			Discontinuing operations		
	PCs and PC peripheral products RMB'000	HDDs and related products 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 revenue	843,713	2,173,458	—	7,264	48,315	3,072,750
Inter-segment revenue (Note)	—	229,583	(229,583)	—	—	—
Total revenue	843,713	2,403,041	(229,583)	7,264	48,315	3,072,750
SEGMENT RESULTS	(54,502)	(1,678)	—	(2,289)	(25,092)	(83,561)
Unallocated other revenue						36,162
Loss from operations						(47,399)

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

5. OTHER OPERATING INCOME**Six months ended 30 June**
2003 2002RMB'000 RMB'000
(Unaudited) (Unaudited)

Included in other operating income are as follows:

Dividend income from other investments

Interest income

—	36,162
26,870	10,072
<u> </u>	<u> </u>

6. PROFIT (LOSS) FROM OPERATIONS**Six months ended 30 June**
2003 2002RMB'000 RMB'000
(Unaudited) (Unaudited)Profit (loss) from operations has been arrived
at after charging:Depreciation and amortisation of property, plant
and equipmentAmortisation of goodwill (included in administrative
and other operating expenses)

121,684	155,067
221	304
<u> </u>	<u> </u>

7. TAXATION**Six months ended 30 June**
2003 2002RMB'000 RMB'000
(Unaudited) (Unaudited)

The taxation charge comprises:

Current year:

PRC income tax

Hong Kong Profits Tax

12,047	3,791
4,827	2,977
<u> </u>	<u> </u>

Taxation attributable to the Company and its subsidiaries

Share of taxation of associates

16,874	6,768
33,422	4,697
<u> </u>	<u> </u>
50,296	11,465
<u> </u>	<u> </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 17.5% (2002: 16%) of the estimated assessable profit for the Period.

8. DIVIDEND

The directors of the Company (the "Directors") do not recommend the payment of an interim dividend for the Period.

9. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the Period of RMB66,918,000 (six months ended 30 June 2002: net profit of RMB31,726,000) and on 1,197,742,000 shares (six months ended 30 June 2002: 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 RMB121,424,000 (six months ended 30 June 2002: RMB498,355,000) on additions to property, plant and equipment.

11. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE

Credit period granted is either based on contract terms or at an average credit period of 90 days.

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

	30.6.2003	31.12.2002
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 90 days	1,123,186	1,579,645
91 – 180 days	177,243	223,854
181 – 365 days	122,070	96,396
Over 365 days	75,814	134,557
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	1,498,313	2,034,452
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Included in trade and other receivables is an amount of approximately RMB33,600,000 (31.12.2002: RMB33,600,000) which is owed by Sichuan Yingtong Computer System Co., Ltd. ("Yingtong") and guaranteed by Chengdu Commercial Bank ("Chengdu Bank"). In 2000, Yingtong and Chengdu Bank refused to honour their obligations and the Group took legal proceedings against Yingtong and Chengdu Bank. In October 2000, the Group received judgement in favour of the Group from the People's High Court of Sichuan. In October 2000, Chengdu Bank contested the case. In 2001, the People's Supreme Court granted final judgment in favour of the Group, and Yingtong is required to repay the outstanding balance to the Group and Chengdu Bank should be responsible for related payment obligations. In the process of enforcing the decision of the People's Supreme Court, the People's High Court of Sichuan decided to re-open the case and it is currently in the process of final decision. The Group has made RMB13,000,000 as provision for doubtful debts in respect of this case.

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

	30.6.2003 RMB'000 (Unaudited)	31.12.2002 RMB'000 (Audited)
Within 90 days	38,786	27,313
91 – 180 days	—	28,316
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	38,786	55,629
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(c) Included in trade and other receivables is an amount of approximately RMB26,000,000 (31.12.2002: RMB26,000,000) which is owed 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 according, no allowance has been made in the financial statements.

12. TRADE AND OTHER PAYABLES AND BILLS PAYABLE

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

	30.6.2003 RMB'000 (Unaudited)	31.12.2002 RMB'000 (Audited)
Within 90 days	1,622,160	2,041,699
91 – 180 days	16,522	5,303
181 – 365 days	9,381	1,794
Over 365 days	8,750	18,301
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	1,656,813	2,067,097
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(b) The aging analysis for bills payable is as follows:

	30.6.2003 RMB'000 (Unaudited)	31.12.2002 RMB'000 (Audited)
Within 90 days	165,234	124,520
91 – 180 days	—	9,240
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	165,234	133,760
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13. CAPITAL COMMITMENTS

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

	30.6.2003 RMB'000 (Unaudited)	31.12.2002 RMB'000 (Audited)
Capital expenditure in respect of construction in progress:		
– contracted but not provided for in the financial statements	3,148	61,915
Capital contribution in respect of investment in associates:		
– contracted but not provided for in the financial statements	22,764	16,540
	<u>25,912</u>	<u>78,455</u>

14. CONTINGENT LIABILITIES

At the balance sheet date, the Group had contingent liabilities not provided for in the financial statements as follows:

	30.6.2003 RMB'000 (Unaudited)	31.12.2002 RMB'000 (Audited)
Guarantees given to financial institutions in respect of banking facilities granted to customers	63,800	61,500
Guarantees given to financial institutions in respect of banking facilities granted to associates	<u>543,000</u>	<u>545,000</u>

15. 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

	Six months ended 30 June 2003 RMB'000 (Unaudited)	2002 RMB'000 (Unaudited)
Sales of products	–	28,199
Purchase of components and parts	472	12,642
Guarantee given by ultimate holding company	<u>1,100,000</u>	<u>1,029,000</u>

(b) Associates

	Six months ended 30 June	
	2003	2002
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Acquired patent and technology	180	—
Purchase of components	4,292	2,597
Rental income received	12,963	9,661
Sales of products	1,338,441	—
Processing fee paid	1,458	1,157
Guarantees given to financial institutions in respect of banking facilities granted to associates	543,000	545,000

(c) Companies with common directors of the Company

	Six months ended 30 June	
	2003	2002
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of products	—	170,693

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

(ii) Related party balances

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

(a) Fellow subsidiaries other than the Group

	30.6.2003	31.12.2002
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Amounts due from fellow subsidiaries	12,287	14,071
Amounts due to fellow subsidiaries	542	—

(b) Associates

	30.6.2003	31.12.2002
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Amounts due from associates	911,906	810,596
Amounts due to associates	96,445	174,398