



MANAGEMENT'S DISCUSSION AND ANALYSIS

Liquidity and financial resources

As at 30th June, 2004, the Group had total assets of US\$992.8 million, down 2.7% from US\$1,020.8 million at the year end of 2003. Total debt and debt to equity ratio (debt to equity ratio is calculated by dividing the total debt by the net asset value) were US\$607.5 million and 461.9% respectively, as compared to US\$623.0 million and 417.0% as at 31st December, 2003.

Most of the borrowings by the Group are in U.S. dollars and RMB, and the interest rates ranged from 2.2% to 8.0% per annum for the period.

The Group had not engaged in any derivative for hedging against both the interest and exchange rate.

Capital structure

The Group finances its working capital requirements through a combination of funds generated from operations, short term and long term bank loans, floating rate notes and from the disposal of certain assets and investments. The Group had cash and cash equivalents of US\$84.5 million as at 30th June, 2004 (31st December, 2003: US\$56.8 million), an increase of US\$27.7 million.

Charges on Group assets

As at 30th June, 2004, out of the total borrowings of US\$607.5 million (31st December, 2003: US\$623.0 million) obtained by the Group, only US\$209.5 million (31st December, 2003: US\$192.7 million) were secured and accounted for 34.5% (31st December, 2003: 30.9%) of the total. Certain of the Group's fixed assets located in the PRC with net book value of US\$222.7 million (31st December, 2003: US\$242.2 million) have been pledged as security for various short and long term bank loans.

Contingent liabilities

As at 30th June, 2004, the guarantees provided by the Group was US\$12.8 million (31st December, 2003: US\$13.1 million).

Employee and remuneration policies

As at 30th June, 2004, the Group employed around 49,000 staff (including 19,000 staff from the jointly controlled entities and associates) in the PRC and Hong Kong. The Group remunerates its employees based on their performance, experience and prevailing market rate while performance bonuses are granted on a discretionary basis. Other employee benefits include insurance and medical cover, subsidized training programme as well as share option scheme.

RESTRUCTURING

The Company has made a distribution of US\$65.8 million during the period, amounting to an aggregate distribution of US\$399.2 million.

OUTLOOK

The business conditions in the second half of 2004 are expected to improve. The Group will continue to implement stringent cost control and improve operating efficiency in order to strive for better returns for our shareholders.