

## MANAGEMENT DISCUSSION AND ANALYSIS

During the Period, the Group realized a turnover of RMB4,897,123,000 and a net profit of RMB129,521,000 representing an decrease of RMB396,060,000 and an increase of RMB62,603,000 respectively, as compared to the corresponding period last year.

## FINANCIAL REVIEW

### *Liquidity and Financial Resources*

As at 30 June 2004, the Group's total cash and bank balances amounted to RMB2,484,855,000 (as compared to RMB1,960,224,000 as at 31 December 2003) and the Group's total borrowings amounted to RMB1,632,412,000 (as compared to RMB1,277,887,000 as at 31 December 2003). The structure of such borrowings were as follows:

- (1) 48.79% was denominated in Renminbi;
- (2) 40.40% was due and repayable within 2 to 5 years; and
- (3) 80.33% was made on fixed interest rates.

### *Gearing Ratio*

As at 30 June 2004, based on the Group's total borrowings and shareholder's equity of RMB1,632,412,000 and RMB3,226,389,000 respectively, as compared to RMB1,277,887,000 and RMB3,096,868,000 respectively as at 31 December 2003, the gearing ratio was 50.60%. The gearing ratio as at 31 December 2003 was 41.26%. The gearing ratio is defined as the ratio between total borrowings and shareholder's equity.

### *Current Ratio and Working Capital*

As at 30 June 2004, the Group's current assets and current liabilities were RMB5,974,876,000 and RMB3,234,122,000 respectively. As at 30 June 2004, the Group's working capital amounted to RMB2,740,754,000 as compared to RMB2,182,291,000 as at 31 December 2003. The current ratio for the Period was 1.85.

### *Charge of Group Assets*

As at 30 June 2004, the Group had pledged to banks its bank savings of approximately RMB193,440,000 (as compared to RMB292,800,000 as at 31 December 2003) to secure banking facilities for the Group. As at 30 June 2004, no borrowings were guaranteed by Great Wall Group (this was also the case as at 31 December 2003), the ultimate holding company of the Group.

*Exchange Rate Fluctuations*

The Group did not hedge against risks associated with foreign exchange fluctuations. During the Period, approximately 81.54% of the Group's turnover was revenue in US dollars. The Group's borrowings were predominantly denominated in US dollars. If US dollars had risen against the RMB, it would have had a negative impact upon the Group. If US dollars had fallen against the RMB, it would have affected the Group favorably. Since the exchange rate of RMB to US dollars remained relatively stable, there were no substantial adverse effects to the Group's business performance or financial status as a result of foreign exchange fluctuations

**CONTINGENT LIABILITIES***1. Corporate Guarantee*

During the Period, the Group provided corporate guarantees to banks and other financial institutions in respect of the facilities given to the associates and third parties. At the balance sheet date, the banking facilities granted to and utilized by the associates and third parties amounted to RMB536,054,000 (2003: RMB745,989,000).

*2. Discounted bills with recourse*

At the balance sheet date, the Group had discounted bills with recourse amounted to RMB20,219,000 (2003: 95,748,000).