



Management Discussion and Analysis

FINANCIAL REVIEW

During the Period, the Group had realized a sales income of RMB14,924,774,000, with an increase of RMB3,505,588,000 from the same period last year; and the net profit was RMB321,936,000, with an increase of RMB119,900,000 from the same period last year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, the Group's total cash and bank balances were RMB2,321,961,000 and the Group's total borrowings were RMB391,322,000. The structure of such borrowings was as follows:

- (1) 89.14% was denominated in Renminbi; and
- (2) 89.14% was made on fixed interest rates.

As at 31 December 2004, the Group's total cash and bank balances was RMB2,112,029,000 and the Group's total borrowings was RMB879,756,000. The structure of such borrowings was as follows:

- (1) 86.91% was denominated in Renminbi; and
- (2) 86.91% was made on fixed interest rates.

None of the above borrowings was due and repayable within 2 to 5 years.

SEGMENT INFORMATION

Detailed segment information in respect of the Group's turnover and contribution to profit from operations for the year ended 31 December 2005 as well as other information by business segment and geographical segment is shown in note 4 to the financial statements.

GEARING RATIO

As at 31 December 2005, the Group's total borrowings and shareholder's equity were RMB391,322,000 and RMB3,564,752,000 respectively, as compared to RMB879,756,000 and RMB3,298,904,000 respectively as at 31 December 2004.

As at 31 December 2005, the gearing ratio was 10.98%, and the gearing ratio as at 31 December 2004 was 26.67%. The gearing ratio was defined as the ratio between total borrowings and shareholder's equity.

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CURRENT RATIO AND WORKING CAPITAL

As at 31 December 2005, the Group's current assets and current liabilities amounted to RMB6,204,452,000 and RMB3,502,684,000 respectively, and the Group's working capital was RMB2,701,768,000 while the current ratio was 1.77.

As at 31 December 2004, the Group's current assets and current liabilities amounted to RMB5,592,599,000 and RMB3,679,721,000 respectively, and the Group's working capital was RMB1,912,878,000 while the current ratio was 1.52 (Restated).

CHARGE OF GROUP ASSETS

As at 31 December 2005, the Group had not pledged bank savings to secure general banking facilities for the Group. As at 31 December 2005, no borrowings were guaranteed by the Great Wall Group, the ultimate holding company of the Group.

As at 31 December 2004, the Group had pledged to banks its bank savings of approximately RMB281,485,000 to secure general banking facilities for the Group. As at 31 December 2004, no borrowings were guaranteed by the Great Wall Group, the ultimate holding company of the Group.

CONTINGENT LIABILITIES

The Group's contingent liabilities are set out in detail in note 36 to the financial statements.

EXCHANGE RATE FLUCTUATIONS

During the Period, approximately over 82% of the Group's turnover was revenue in US dollars. If US dollars had fallen against RMB, it would have had a negative impact upon the Group.

DISPOSAL

On 21 June 2005, Great Wall Kaifa, a subsidiary of the Company, entered into shareholding transfer agreements with Tu Shenzhen LLC (abbreviated as "Tu Company") and Sun Shenzhen LLC (abbreviated as "Sun Company") respectively, pursuant to which Great Wall Kaifa agreed to transfer the 40% equity held by it in Shenzhen Kaifa Payton Technology Co. Ltd. to Tu Company and Sun Company each of which would pay a consideration of US\$20,172,531 and would be assigned 20% equity.

The above disposal constitutes a discloseable transaction of the Company under the disclosure requirement of the Listing Rules. For details of this transfer, please refer to the Company's circular dated 14 July 2005. As at 31 December 2005, the above disposal was completed.



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BUSINESS RISKS AND RISK MANAGEMENT POLICIES

The Company's associate, GWBNS, was established in 2000. Up to the date of this annual report, GWBNS is owned as to 50% by Midinfo Network Limited, and the Company also holds a 35% direct interest in GWBNS and each of Shenzhen Great Wall Kaifa and Great Wall Computer both are subsidiaries of the Company, holds a 7.5% interest in GWBNS.

Due to the fierce competition in the industry and substantial capital requirement, as at the end of 2005, GWBNS has recorded an accumulated loss of RMB842 million. As at 24 April 2006, the Company has provided a guarantee in respect of the loan granted to GWBNS, which amounted to RMB577 million and provided a loan of approximately RMB306 million to GWBNS, of which approximately RMB16 million was loan interest. There are certain risks inherent to the above guarantee and loan due to the increasing fierce competition in the PRC broadband service industry and the State's austerity measures on the macro-economy.

In order to maintain control over its risk exposure, the operation team of GWBNS has implemented a series of reforms under the leadership of the board of GWBNS. The 2005 results of GWBNS have achieved greater improvement through the appropriate policies implemented such that the annual loss in 2005 was RMB48 million less than that of last year. Currently, broadband connection service and value-added service will still be an important direction in the future IT industry. In order to support the development of GWBNS, the Company will provide and maintain guarantees and loans towards GWBNS on a continuing basis.

EMPLOYEES

As at 31 December 2005, the number of employees of the Group was approximately 13,000. The salaries of the employees were determined according to the rank in and contribution to the respective company of any individual employee with reference to the remuneration and incentive system of the respective company.

As at 31 December 2004, the number of employees of the Group was approximately 10,000. The salaries of the employees were determined according to the rank in and contribution to the respective company of any individual employee with reference to the remuneration and incentive system of the respective company.

RETIREMENT BENEFIT SCHEME FOR EMPLOYEES

Details of the retirement benefit schemes for employees of the Group are set out in note 2.5 to the financial statements.

By Order of the Board

Chen Zhaoxiong

Chairman

24 April 2006