

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

During the Period, the Group realized a turnover of RMB8,662,392,000, representing an increase of 20% as compared to the corresponding period of last year, and interim loss after tax attributable to the shareholders of the Company amounted to RMB293,137,000, representing a decrease of 194% as compared to the interim profit of the corresponding period last year.

### Liquidity and Financial Resources

As at 30 June 2006, the Group's total cash and cash equivalent amounted to RMB2,647,466,000 and the Group's total bank borrowings amounted to RMB321,553,000. The structure of such borrowings was as follows:

- (1) 63.75% was denominated in Renminbi;
- (2) 63.75% was made on fixed interest rates.

Of such borrowings, RMB253,900,000, RMB48,297,000 and RMB19,356,000 will be repayable in the twelve months ending 30 June 2007, 2009, 2010 and thereafter.

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

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

Of such borrowings, RMB323,210,000, RMB42,496,000 and RMB25,616,000 will be repayable in the twelve months ending 31 December 2006, 2007, 2008 and thereafter.

### Gearing Ratio

As at 30 June 2006, the Group's total bank borrowings and shareholder's equity were RMB321,553,000 and RMB3,246,608,000 respectively, as compared to RMB391,322,000 and RMB3,564,752,000 respectively as at 31 December 2005.

The gearing ratio as at 30 June 2006 was 9.9%. The gearing ratio as at 31 December 2005 was 10.98%. The gearing ratio is defined as the ratio between total bank borrowings and shareholders' equity.

**Current Ratio and Working Capital**

As at 30 June 2006, the Group's current assets and current liabilities were RMB6,205,781,000 and RMB3,607,704,000 respectively, while the Group's operating capital was RMB2,598,077,000. The current ratio was 1.72.

As at 31 December 2005, the Group's current assets and current liabilities were RMB 6,204,452,000 and RMB 3,502,684,000 respectively, while the Group's operating capital was RMB2,701,768,000. The current ratio was 1.77.

**Charge of Group Assets**

As at 30 June 2006, the Group had pledged to banks its bank savings of approximately RMB74,036,000 to secure general banking facilities for the Group. As at 30 June 2006, no borrowings were guaranteed by China Great Wall Computer Group Company ("Great Wall Group"), the holding company of the Group.

As at 31 December 2005, the Group did not have any bank pledges. As at 31 December 2005, no borrowings were guaranteed by Great Wall Group.

**Contingent liabilities**

The Group's contingent liabilities are set out in detail in note 19 to the condensed consolidated financial statements in this interim report.

**Exchange Rate Fluctuation**

During the Period, approximately 82.9% of the turnover of the Group was received in US dollars. The loans of the Group were mainly denominated in Renminbi. Any rise of the exchange rate of the US dollar against the Renminbi will have a positive impact on the Group. Any fall of the exchange rate of the US dollar against the Renminbi will have an adverse impact on the Group.

**Major Events***Share Reform proposals of Great Wall Kaifa and CGC*

According to the announcement of the Company dated 20 February 2006 and the circular of the Company dated 27 February 2006 ("Circular"), the Revised Great Wall Kaifa Proposal and the Revised CGC Proposal were for the conversion of all unlisted shares of each of Great Wall Kaifa and CGC, the A Shares of which are listed on the Shenzhen Stock Exchange in the PRC, to listed shares of Great Wall Kaifa and CGC. The Revised Great Wall Kaifa Proposal and the Revised CGC Proposal were approved by the Company's extraordinary general meeting held on 15 April 2006 and Great Wall Kaifa and CGC's extraordinary general meeting held on 20 April 2006 respectively.

The Circular stated that in respect of the Revised Great Wall Kaifa Proposal and the Revised CGC Proposal, the net assets value of the shares based on the unaudited interim accounts of CGC and Great Wall Kaifa as at 30 June 2005 to be transferred by the Company was RMB227,548,648 and RMB173,483,238.5 respectively and the Company expected to incur disposal losses of approximately RMB72,346,327 and RMB78,395,383 as a result of the transfer of shares pursuant to the Revised Great Wall Kaifa Proposal and the Revised CGC Proposal respectively.

Through discussions with Ernst & Young, the Company's international auditors, on 8 August 2006, the disposal losses of the Group, as opposed to the Company, as a result of the Revised CGC Proposal and the Revised Great Wall Kaifa Proposal amounts to approximately RMB232,427,000 and RMB194,209,000 respectively and the disposal losses at Company level would be approximately RMB72,346,327 and RMB78,395,383 as a result of the transfer of shares pursuant to the Revised Great Wall Kaifa Proposal and the Revised CGC Proposal respectively. The disposal losses at Group level will cause a reduction to the Group's earnings, and thus adversely affected the Group's total earnings in the first half of 2006. Details of which can be referred to in the circular dated 27 February 2006 and the announcement dated 15 August 2006 of the Company.

#### *Business risks and risk management policies*

The Company's associate, Great Wall Broadband Network Service Co., Ltd ("GWBNS"), was established in 2000. Up to the date of this interim 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 Great Wall Kaifa and CGC, both of which are subsidiaries of the Company, holds a 7.5% interest in GWBNS.

Due to fierce competition in the broadband industry and substantial capital requirement, as at 30 June 2006, GWBNS has recorded an accumulated loss of approximately RMB893 million. As at the date of this interim report, the Company has provided a guarantee in respect of the loan granted to GWBNS, which amounted to approximately RMB327 million and provided a loan of approximately RMB550 million to GWBNS, of which except for the loan of RMB170 million bearing interest at 5.85% per annum, other loans carried an annual interest rate of 5.58%. There are certain risks inherent to the above guarantee and loan.

The interim loss incurred by GWBNS in 2006 was approximately RMB21 million less than that of the corresponding period 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.