

### Broadband Network and Value-Added Services

In the second half of the year, GWBNS will intensify its efforts to provide high-end services in a strategic manner, step up its control of production costs and price management, and heighten profit awareness, with a view to attaining an overall enhancement of its operating and management ability and eliminating any risk factors as soon as possible.

### **GUARANTEE FOR INDEPENDENT THIRD PARTY**

As at 30 June 2005, the Group had provided a guarantee of approximately RMB355,676,000 in respect of banking facilities granted to third parties of which Kaifa, the Company's subsidiary, and China National Machinery & Equipment Import & Export Corporation ("CMEC") have collaborated on the export of the Italian company ENEL's Smart Meter. The Bank of China had issued a performance bond for the project with CMEC as the applicant of the bond. After negotiations between Kaifa and CMEC on the one hand, and the Bank of China on the other, the performance bond guarantee in the amount of US\$25.6 million provided to CMEC without performing the examination and approval procedures by Kaifa on 11 August 2004 was released. During the period, Kaifa continued to collaborate with CMEC on the export of the Smart Meter. To facilitate the project, Kaifa has, as at the date hereof, provided CMEC with a performance bond guarantee with an aggregate amount not exceeding US\$22,781,043. As Kaifa was responsible for the funding, technology, quality control and production of the project and provides direct shipments to ENEL, Kaifa was the effective performer of the contract and the exposure of the bond guarantee was in fact within the control of Kaifa. As at the reporting date, the performance of the project was satisfactory.

### **GUARANTEE FOR ASSOCIATED COMPANY**

As at 30 June 2005, the Group had provided a guarantee of approximately RMB525,000,000 in respect of banking facilities granted to GWBNS, an associated company.

The balance sheet of the above associated company is extracted from its unaudited management accounts as at 30 June 2005 and is set out as follows:

	RMB'000
Non-current Assets	1,474,224
Current Assets	294,579
Current Liabilities	1,552,092
Minority Interests	26,772
Shareholders' Equity	189,939
Interests attributable to the Group	<u>83,060</u>

*Note:* As at the date of the interim report, the Company had provided a guarantee totaling RMB425,000,000 in respect of the bank loans granted to GWBNS, an associated company.