ZTE中兴

中兴通讯股份有限公司

ZTE CORPORATION

stock code 股份代號：000063.SZ
763.HK

# 2009
# Interim Report
# 半 年 度 報 告

# 重要提示

本公司董事會、監事會及董事、監事、高級管理人員保證本報告所載資料不存在虛假記載、誤導性陳述或者重大遺漏，並對其內容的真實性、準確性和完整性承擔個別及連帶責任。

沒有董事、監事、高級管理人員對本半年度報告內容的真實性、準確性和完整性無法保證或存在異議。

本公司董事長侯為貴先生、財務總監韋在勝先生和會計機構負責人石春茂先生聲明：保證本半年度報告中財務報告真實、完整。

本公司第四屆董事會第二十八次會議審議通過本半年度報告，董事李居平先生因工作原因未能出席本次董事會會議，已書面委託董事史立榮先生行使表決權；董事董聯波先生因工作原因未能出席本次董事會會議，已書面委託副董事長謝偉良先生行使表決權；董事何士友先生因工作原因未能出席本次董事會會議，已書面委託董事長侯為貴先生行使表決權。

本集團截至2009年6月30日止編製的半年度財務報表未經審計。

本報告分別以中英文兩種文字編製，在對本半年度報告（除按香港財務報告準則編製的財務報告外）的理解發生歧義時，以中文文本為準；按照香港財務報告準則編製的財務報告以英文為準。

# IMPORTANT

The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of ZTE Corporation ("ZTE" or the "Company") confirm that this report does not contain any false information, misleading statements or material omissions, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of the contents of this report.

There are no Directors, Supervisors or senior management who do not warrant or who dispute the truthfulness, accuracy and completeness of the contents of the interim report.

Mr. Hou Weigui, Chairman of the Company, Mr. Wei Zaisheng, Chief Financial Officer of the Company and Mr. Shi Chunmao, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness and completeness of the financial statements contained in the interim report.

The interim report has been considered and approved at the twenty-eighth meeting of the Fourth Session of the Board of Directors of the Company. Mr. Li Juping, Director, was unable to attend the meeting due to work related reasons, and has authorised in writing Mr. Shi Lirong, Director, to vote on his behalf. Mr. Dong Lianbo, Director, was unable to attend the meeting due to work related reasons, and has authorised in writing Mr. Xie Weiliang, Vice Chairman, to vote on his behalf. Mr. He Shiyou, Director, was unable to attend the meeting due to work related reasons, and has authorised in writing Mr. Hou Weigui, Chairman, to vote on his behalf.

The interim financial statements of the Group for the six months ended 30 June 2009 were unaudited.

This report has been prepared in Chinese and English respectively. In case of discrepancy in the interpretation of this interim report, the Chinese version shall prevail, except for the financial statements prepared in accordance with HKFRSs, of which the English version shall prevail.

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# DEFINITIONS

In this report, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in the section headed "Glossary".

| | |
|---|---|
| "Company" or "ZTE" | ZTE Corporation, a joint stock limited company incorporated in China on 11 November 1997 under the Company Law of the People's Republic of China, the A shares and H shares of which are listed on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange respectively |
| "Articles of Association" | The Articles of Association of ZTE Corporation |
| "Group" | ZTE and one or more of its subsidiaries |
| "Board of Directors" | The board of directors of the Company |
| "Supervisors" | Members of the supervisory committee of the Company |
| "China" or "PRC" | People's Republic of China |
| "ITU" | International Telecommunications Union, a specialised agency for telecommunications within the United Nations, the primary aim of which is to coordinate the operation of telecommunications network and services and advance the development of communications technology |
| "China Mobile" | China Mobile Communications Corporation and its subsidiaries |
| "China Telecom" | China Telecommunications Corporation and its subsidiaries |
| "China Unicom" | China United Network Communications Group Corporation and its subsidiaries |
| "CSRC" | China Securities Regulatory Commission |
| "Hong Kong Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Shenzhen Stock Exchange" | The Shenzhen Stock Exchange of China |
| "Hong Kong Stock Exchange Listing Rules" | Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time) |
| "HKFRSs" | Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations |
| "PRC ASBEs" | Generally accepted accounting principles in China |
| "CASC" | China Aerospace Science and Technology Corporation and its subsidiaries |
| "CASIC" | CASIC (Group) Company, Limited and its subsidiaries |
| "Xi'an Microelectronics" | Xi'an Microelectronics Technology Research Institute |
| "Zhongxing WXT" | Shenzhen Zhongxing WXT Equipment Company, Ltd. |
| "Zhongxingxin" | Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited |
| "Zhongxing Xindi" | Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited |
| "Zhongxing Xinyu" | Shenzhen Zhongxing Xinyu FPC Company, Limited |
| "Zhongxing Xinzhou" | Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited |
| "ZTE Kangxun" | Shenzhen ZTE Kangxun Telecom Company Limited |

| | |
|---|---|
| "ZTE Software" | Shenzhen ZTE Software Company Limited |
| "ZTE HK" | ZTE (H.K.) Limited |
| "Changfei" | Shenzhen Changfei Investment Company, Limited |
| "Hongde" | Shenzhen Hongde Battery Company, Limited |
| "Kangquan" | Shenzhen Kangquan Electromechanical Company, Limited |
| "Ruide" | Shenzhen Ruide Electronic Industrial Company, Limited |

# GLOSSARY

**This glossary contains certain definitions of technical terms used in this report as they relate to the Group. Some of these definitions may not correspond to standard industry definitions or usage.**

| | |
|---|---|
| 3G | Third-generation mobile communications system based on CDMA technology and designed for high-speed broadband data transmission at hundreds of Kbp/s. ITU designates 3G as IMT-2000 (International Mobile Telecommunication). Currently, the mainstream 3G technologies include WCDMA, CDMA2000 and TD-SCDMA. |
| ADSL | Asymmetrical digital subscriber lines, a method of transmitting data over traditional copper telephone lines. Data can be downloaded at speeds of up to 24 Mbps and uploaded at speeds of 3.5 Mbps. |
| CDMA | Code division multiple access, one of the standards for 2G mobile communications. By assigning a unique correlating code to each transmitter, several simultaneous conversations can share the same frequency allocations. |
| CDMA2000 | CDMA2000 standards are set by 3GPP2 in several versions including Release 0, Release A and EV-DO. Currently, the use of single carrying wave EV-DO in data services can enable the synchronous transmission of voice and high speed packet data with the standard 1.25MHz carrying wave at a maximum speed of 3.1Mbit/s. |
| DSL | Digital subscriber lines, the collective name given to a number of techniques used for transmitting digital data over the local loop or subscriber line. These are also known as xDSL. Examples are ADSL, ADSL2, HDSL, VDSL, and VDSL2. |
| GSM | Global System for Mobile Communications, another 2G mobile communications standard using TDMA technology, which was launched by European Committee for Standardization in 1992. Currently, over 70% of the world's mobile communications are GSM-based. |
| IP | Internet protocol, a protocol for text exchange over networks generally adopted by the Internet. The current version in operation is IPv4 and the upcoming version is IPv6. |
| Softswitch | An application providing centralized call control and connection control of voice, data and multi-media transmission, featuring more flexible service provision capabilities versus traditional circuit switch. |
| TD-SCDMA | Time division synchronous code division multiple access, a 3G technology developed in China featuring primarily synchronous code division multiple access, smart antenna and software wireless technologies. It adopts the TDD dual mode with a carrying wave bandwidth of 1.6mhz. |
| WCDMA | Wideband CDMA, a 3G mobile communications technology sponsored by 3GPP. It is operated with a carrying wave bandwidth of 5MHz, and is capable of reaching a speed of 2Mbps (static) and 384kbps (slow motion) in data transmission. |
| FTTX | Abbreviation of "Fiber-to-the-X", a collective name given to various methods for fiber access. FTTX commonly includes: FTTN (Fiber-to-the-Node), FTTC (Fiber-to-the-Curb), FTTB (Fiber-to-the-Building), FTTH (Fiber-to-the-Home). |
| LTE | LTE (Long Term Evolution) refers to the long-term evolution of 3G technology with OFDM as the core, and is regarded as 4G in the making. LTE is being promoted by 3GPP and its major performance targets include maximum speeds of 100Mbps (download) and 50Mbps (upload) using 20MHz bandwidth. |

| | |
|---|---|
| Wimax | WiMax (World Interoperability for Microwave Access) is a MAN broadband wireless access technology using OFDM on the basis of IEEE802.16 Standard to support high-speed data access. Currently the technology is being developed towards compatibility with fully mobile cellular networks and has become one of the 3G technology standards defined by ITU. |
| Core network | A mobile network comprises a wireless access network and a core network, the latter of which provides services such as call control, billing and mobility. |
| UMTS | A reference to WCDMA standards generally used in Europe. 3G technologies have been collectively referred to as UMTS (Universal Mobile Telecommunications System) by European Telecommunications Standards Institute (ETSI) since the early 1990s. |
| IPTN | Abbreviation of IP telecommunications network, a network based on IP technology and capable of meeting the requirements of telecommunications operations and providing network solutions for a variety of services. IPTN is a renovation of traditional IP networks aimed at solving the QoS, security and management issues of IP networks. |

# CORPORATE INFORMATION

## (I) BASIC INFORMATION

| | | |
|---|---|---|
| 1 | Legal name (in Chinese) | 中興通訊股份有限公司 |
| | Chinese abbreviation | 中興通訊 |
| | Legal name (in English) | ZTE Corporation |
| | English abbreviation | ZTE |
| 2 | Legal representative | Hou Weigui |
| 3 | Secretary to the Board of Directors/Company Secretary | Feng Jianxiong |
| | Securities affairs representatives | Xu Yulong, Li Fei |
| | Correspondence Address | 6/F Block A, ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China |
| | Telephone | +86 755 2677 0282 |
| | Facsimile | +86 755 2677 0286 |
| | E-mail | fengjianxiong@zte.com.cn |
| 4 | Registered and office address | ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China |
| | Postal code | 518057 |
| | Principal place of business in Hong Kong | 8/F Gloucester Tower, The Landmark, 15 Queen's Road Central, Central, Hong Kong |
| | Website | http://www.zte.com.cn |
| | E-mail | fengjianxiong@zte.com.cn |
| 5 | Newspapers designated for information disclosure by the Company | |
| | Domestic | China Securities Journal, Securities Times, Shanghai Securities News |
| | Authorised websites on which this report is made available | http://www.cninfo.com.cn<br>http://www.hkexnews.hk |
| | Place where this report is available for inspection | ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China |
| 6 | Listing information | **A shares**<br>Shenzhen Stock Exchange<br>Abbreviated name of stock: 中興通訊<br>Stock code: 000063<br>**Bonds**<br>Shenzhen Stock Exchange<br>Abbreviated name of bond: 中興債1<br>Bond code: 115003<br>**Warrants**<br>Shenzhen Stock Exchange<br>Abbreviated name of warrant: 中興ZXC1<br>Warrant code: 031006<br>**H shares**<br>Hong Kong Stock Exchange<br>Abbreviated name of stock: ZTE<br>Stock code: 763 |

## (II) ACCOUNTING HIGHLIGHTS

### 1. Major financial data prepared in accordance with PRC ASBEs

Unit: RMB in thousands

| Items | End of the current reporting period (30 June 2009) | End of the previous year (31 December 2008) | Increase/ decrease as at end of reporting period compared with end of the previous year |
|---|---|---|---|
| Total assets | **62,074,205** | 50,865,921 | 22.03% |
| Shareholders' equity Note 1 | **14,761,300** | 14,249,544 | 3.59% |
| Share capital | **1,746,329** | 1,343,330 | 30.00% |
| Net assets per share (RMB/ share) | **8.45** Note 2 | 8.16 Note 2 | 3.59% Note 4 |

| Items | The current reporting period (Six months ended 30 June 2009) | Corresponding period of the previous year (Six months ended 30 June 2008) | Increase/ decrease for the reporting of period compared with corresponding period of the previous year |
|---|---|---|---|
| Operating revenue | **27,707,646** | 19,728,984 | 40.44% |
| Operating profit | **633,655** | 462,922 | 36.88% |
| Gross profit | **1,211,196** | 868,642 | 39.44% |
| Net profit Note 1 | **783,367** | 557,386 | 40.54% |
| Net profit after extraordinary gains or losses Note 1 | **754,760** | 545,707 | 38.31% |
| Basic earnings per share (RMB/share) | **0.45** Note 2 | 0.32 Note 2 | 40.54% Note 4 |
| Diluted earnings per share Note 3 (RMB/share) | **0.44** Note 2 | 0.31 Note 2 | 40.54% Note 4 |
| Return on net assets (%) | **5.31%** | 4.27% | 1.04% |
| Net cashflow from operating activities | **-1,175,203** | -3,151,205 | 62.71% |
| Net cashflow from operating activities per share (RMB/share) | **-0.67** Note 2 | -1.80 Note 2 | 62.71% Note 4 |

Note 1: The above figures represent interests attributable to shareholders of the listed company.

Note 2: The Company's plan to increase its capital by way of capitalisation of capital reserves was implemented on 4 June 2009 and the actual number of the Company's total issued share capital was increased from 1,343,330,310 shares to 1,746,329,402 shares. The amounts of net assets per share, basic earnings per share, diluted earnings per share and net cashflow from operating activities per share set out above are calculated on the basis of the Company's total issued share capital after the capitalisation.

Note 3: In accordance with PRC ASBEs, diluted earnings per share is calculated by dividing net profit attributable to the listed company by the sum of the total share capital of the Company of 1,746,329,402 shares and 55% of the 85,006,813 potentially dilutive ordinary shares representing Subject Shares quota granted under the Phase I Share Incentive Scheme of the Company.

Note 4: The percentage change in the increase/decrease of net assets per share as compared to the end of last year was consistent with the percentage change in the increase/decrease of equity attributable to the shareholders of the parent as compared to the end of last year, but might be different from the percentage change calculated on the basis of actual figures owing to rounding in the calculation of net assets per share.

The percentage change in the increase/decrease of basic and diluted earnings per share as compared to the same period last year was consistent with the percentage change in the increase/decrease of net profit attributable to the shareholders of the parent as compared to the end of the previous year, but might be different from the percentage change calculated on the basis of actual figures owing to rounding in the calculation of earnings per share.

The percentage change in the increase/decrease of net cash flow from operating activities per share as compared to the same period last year was consistent with the percentage change in the increase/decrease of net cash flow from operating activities as compared to the end of the previous year, but might be different from the percentage change calculated on the basis of actual figures owing to rounding in the calculation of net cash flow from operating activities per share.

Extraordinary gains or losses items and amounts deducted are set out as follows:

Unit: RMB in thousands

| Extraordinary gains or losses items | Amounts |
|---|---|
| Government grants accounted for in current profit and loss[Note] | 30,632 |
| Other non-operating income | 45,635 |
| Less: Gains/losses arising from the disposal of non-current assets | 6,598 |
| Other non-operating expenses | 36,014 |
| Effect of income tax | 5,048 |
| Total | 28,607 |

Note: With the exception of government grants which were closely related to the ordinary business operations of the Company and received in fixed amounts on a continuous basis in accordance with national policies and designated standards.

## 2. Major financial data prepared in accordance with HKFRSs

| Items | Six months ended 30 June 2009 | Six months ended 30 June 2008 |
|---|---|---|
| Basic earnings per share (RMB) | **0.45** | 0.32 |
| Return on net assets* (%) | **5.31%** | 4.27% |

| Item | As at 30 June 2009 | As at 31 December 2008 |
|---|---|---|
| Net assets per share* (RMB) | **8.45** | 8.16 |

* The above figures represent interests attributable to shareholders of the listed company. Basic earnings per share and net assets per share are calculated on the basis of the Company's total issued share capital after the capitalisation of capital reserves implemented on 4 June 2009, namely 1,746,329,402 shares.

## 3. The amounts of net profit and shareholders' equity of the Group for and as at the end of the reporting period calculated in accordance with PRC ASBEs are fully consistent with those calculated under HKFRSs. The financial statements for the period prepared in accordance with PRC ASBEs did not differ significantly from the combined financial statements for the period prepared under HKFRSs.

# CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

## (1) CHANGES IN SHARE CAPITAL OF THE COMPANY AS AT THE END OF THE REPORTING PERIOD

Unit: Shares

| | Opening balance (31 December 2008) | | Increase/decrease (+/-) resulting from changes in the reporting period | | | | | Closing balance (30 June 2009) | |
|---|---|---|---|---|---|---|---|---|---|
| | Number | Percentage (%) | Issue of new shares | Bonus issue | Transfer from capital reserve | Others[1] | Sub-total | Number | Percentage (%) |
| **I. Shares subject to lock-up** | 1,693,914 | 0.13 | – | – | 486,271 | (73,010) | 413,261 | **2,107,175** | **0.12** |
| 1. State-owned shares | – | – | – | – | – | – | – | **–** | **–** |
| 2. State-owned legal person shares | – | – | – | – | – | – | – | **–** | **–** |
| 3. Other domestic shares | 1,693,914 | 0.13 | – | – | 486,271 | (73,010) | 413,261 | **2,107,175** | **0.12** |
| Comprising: Domestic legal person shares | – | – | – | – | – | – | – | **–** | **–** |
| Domestic natural person shares (including shares held by senior management) | 1,693,914 | 0.13 | – | – | 486,271 | (73,010) | 413,261 | **2,107,175** | **0.12** |
| 4. Foreign shares | – | – | – | – | – | – | – | **–** | **–** |
| Comprising: Foreign legal person shares | – | – | – | – | – | – | – | **–** | **–** |
| Foreign natural person shares | – | – | – | – | – | – | – | **–** | **–** |
| **II. Shares not subject to lock-up** | 1,341,636,396 | 99.87 | – | – | 402,512,821 | 73,010 | 402,585,831 | **1,744,222,227** | **99.88** |
| 1. RMB ordinary shares | 1,117,424,940 | 83.18 | – | – | 335,249,385 | 73,010 | 335,322,395 | **1,452,747,335** | **83.19** |
| 2. Domestic-listed foreign shares | – | – | – | – | – | – | – | **–** | **–** |
| 3. Overseas-listed foreign shares (H Shares) | 224,211,456 | 16.69 | – | – | 67,263,436 | – | 67,263,436 | **291,474,892** | **16.69** |
| 4. Others | – | – | – | – | – | – | – | **–** | **–** |
| **III. Total number of shares** | 1,343,330,310 | 100 | – | – | 402,999,092 | – | 402,999,092 | **1,746,329,402** | **100** |

Note 1: For reasons of changes in shares subject to lock-up set out above, please refer to Schedule 1: Shareholdings of shareholders subject to lock-up and lock-up conditions.

Note 2: On 4 June 2009, the Company increased its share capital by way of capitalisation of the capital reserve (creation of 3 shares for every 10 shares based on a total share capital of 1,343,330,310 shares as at 31 December 2008). For details of changes in the Company's share capital following the capitalisation, please refer to the announcement of the Company "Profit Distribution and Capitalisation of Capital Reserve for 2008" dated 5 June 2009.

**Schedule 1: Shareholdings of shareholders subject to lock-up and lock-up conditions (Unit: Shares)**

| No | Names of shareholders subject to lock-up | Number of shares subject to lock-up as at 31 December 2008 | Number of shares released from lock-up during the reporting period | Increase in number of shares subject to lock-up during the reporting period | Number of shares subject to lock-up at the end of the reporting period | Lock-up conditions |
|---|---|---|---|---|---|---|
| 1 | Hou Weigui | 380,600 | — | 114,179 | 494,779 | Note 1 |
| 2 | Yin Yimin | 202,832 | — | 60,848 | 263,680 | Note 1 |
| 3 | Shi Lirong | 115,548 | — | 34,664 | 150,212 | Note 1 |
| 4 | He Shiyou | 110,557 | — | 33,167 | 143,724 | Note 1 |
| 5 | Zhang Taifeng | 127,764 | — | 38,329 | 166,093 | Note 1 |
| 6 | Qu Deqian | 10,521 | — | 3,156 | 13,677 | Note 1 |
| 7 | Wei Zaisheng | 124,173 | — | 37,252 | 161,425 | Note 1 |
| 8 | Xie Daxiong | 62,081 | — | 18,624 | 80,705 | Note 1 |
| 9 | Tian Wenguo | 19,136 | 4,784 | 4,306 | 18,658 | Note 1 and Note 2 |
| 10 | Fan Qingfeng | 15,000 | — | 4,500 | 19,500 | Note 1 |
| 11 | Chen Jie | 106,725 | — | 32,017 | 138,742 | Note 1 |
| 12 | Zhao Xianming | 11,250 | — | 3,375 | 14,625 | Note 1 |
| 13 | Pang Shengqing | 11,475 | — | 3,443 | 14,918 | Note 1 |
| 14 | Zeng Xuezhong | 22,500 | — | 6,750 | 29,250 | Note 1 |
| 15 | Xu Huijun | 11,250 | — | 3,375 | 14,625 | Note 1 |
| 16 | Ye Weimin | 42,994 | — | 12,898 | 55,892 | Note 1 |
| 17 | Ni Qin | 97,782 | — | 29,335 | 127,117 | Note 1 |
| 18 | Wu Zengqi | 15,000 | — | 4,500 | 19,500 | Note 1 |
| 19 | Feng Jianxiong | 7,500 | — | 2,250 | 9,750 | Note 1 |
| 20 | Former senior management shareholders | 199,226 | 86,459 | 57,536 | 170,303 | |
| | Total | 1,693,914 | 91,243 | 504,504 | 2,107,175 | |

Note 1: In accordance with relevant domestic regulations, up to 25% of the shares held may be sold through the stock exchange each year.

Note 2: Shareholdings of Mr. Tian Wenguo, Executive Vice President of the Company, released in 2008 were sold during the same year. As at 31 December 2008, the numbers of shares subject to lock-up held by Mr. Tian Wenguo was the actual number of his shareholdings in the Company. In accordance with relevant regulations, 25% of such shareholdings were released from lock-up at the beginning of 2009.

## (II) SHAREHOLDERS OF THE COMPANY AS AT END OF REPORTING PERIOD

### 1. Total numbers of shareholders and shareholdings of top ten shareholders and top ten holders that are not subject to lock-up

| | |
|---|---|
| Total numbers of shareholders | 52,725 shareholders (of which 52,392 were holders of A shares and 333 were holders of H shares). |

| Top Ten Shareholders | | | | | | |
|---|---|---|---|---|---|---|
| Name of shareholder | Nature of shareholder | Percentage of shareholding | Total number of shares held (shares) | Number of shares held that are subject to lock-up (shares) | Number of shares pledged or frozen |
| 1. Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited | State-owned shareholders | 35.52% | 620,214,413 | — | None |
| 2. HKSCC Nominees Limited | Foreign shareholders | 16.66% | 290,895,835 | — | Unknown |
| 3. China Life Insurance Company Limited —Dividend — Individual Dividend — 005L-FH002 Shen | Others | 2.34% | 40,851,542 | — | Unknown |
| 4. The Industrial and Commercial Bank of China — Guangfa Jufeng Stock Fund | Others | 1.64% | 28,562,554 | — | Unknown |
| 5. Hunan Nantian (Group) Co., Ltd | Others | 1.19% | 20,805,894 | — | Unknown |
| 6. The Industrial and Commercial Bank of China — Lion Value Growth Stock Fund | Others | 0.92% | 15,999,960 | — | Unknown |
| 7. Industrial Bank — Xingye Trend Investment Hybrid Fund | Others | 0.79% | 13,864,760 | — | Unknown |
| 8. China Construction Bank — Changsheng Tongqing Separate Trading Stock Fund | Others | 0.68% | 11,807,627 | — | Unknown |
| 9. Jilin Posts and Telecommunications Equipment Company | Others | 0.58% | 10,046,728 | — | Unknown |
| 10. China Mobile Telecommunications No. 7 Research Institute | Others | 0.57% | 10,028,528 | — | Unknown |

| Shareholdings of top ten holders that were not subject to lock-up<br>Name of shareholder | Number of shares not subject to lock-up (shares) | Class of shares |
|---|---|---|
| 1. Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited | 620,214,413 | A Shares |
| 2. HKSCC Nominees Limited | 290,895,835 | H Shares |
| 3. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L-FH002 Shen | 40,851,542 | A Shares |
| 4. The Industrial and Commercial Bank of China — Guangfa Jufeng Stock Fund | 28,562,554 | A Shares |
| 5. Hunan Nantian (Group) Co., Ltd | 20,805,894 | A Shares |
| 6. The Industrial and Commercial Bank of China — Lion Value Growth Stock Fund | 15,999,960 | A Shares |
| 7. Industrial Bank — Xingye Trend Investment Hybrid Fund | 13,864,760 | A Shares |
| 8. China Construction Bank – Changsheng Tongqing Tradable Separated Stock Fund | 11,807,627 | A Shares |
| 9. Jilin Posts and Telecommunications Equipment Company | 10,046,728 | A Shares |
| 10. China Mobile Telecommunications No.7 Research Institute | 10,028,528 | A Shares |
| Descriptions of any connected party relationships or concerted party relationships among the above shareholders | 1. There were no connected party relationships or concerted party relationships between Zhongxingxin and other top ten shareholders and other top ten holders of shares not subject to lock-up.<br><br>2. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and the top ten holders of shares that are not subject to lock-up. | |

Note 1: During the reporting period, there was no placing of new shares in the Company to any strategic investors or ordinary legal persons that required shareholding for a designated period.

Note 2: Changes in the shareholding of Zhongxingxin, shareholder interested in more than 5% of the Company's shares, during the reporting period are as follows:

| Name of shareholder | Increase/ decrease (+/-) of number of shares held during the reporting period (shares) | Number of shares held at the end of the reporting period (shares) | Class of shares held | Number of shares subject to lock-up held at the end of the reporting period (shares) | Number of shares not subject to lock-up held at the end of the reporting period (shares) | Number of shares pledged or frozen (shares) |
|---|---|---|---|---|---|---|
| Zhongxingxin | 143,126,403 | 620,214,413 | A shares | — | 620,214,413 | Nil |

Note: The change in the shareholdings of Zhongxingxin during the reporting period was attributable to the implementation of the profit distribution and capitalisation of capital reserves for 2008 (creation of 3 shares for every 10 shares on the basis of the total share capital of 1,343,330,310 shares as at 31 December 2008.

## 2. Controlling shareholders and de facto controllers of the Company

During the reporting period, there was no change to the controlling shareholder of the Company. There was no de facto controller of the Company.

## 3. Interests of substantial shareholders of the Company and other persons in shares or debentures

As at 30 June 2009, the following shareholders were interested in 5% or more in any class of the issued share capital of the Company, as shown in the share register maintained by the Company in accordance with Section 336 of the Securities and Futures Ordinance:

| Name | Number of shareholding | Approximate shareholding as a percentage (%) of: Total share capital | Class of shares |
|---|---|---|---|
| Zhongxingxin | 620,214,413 A shares (L) | 35.52(L) | 42.63(L) |
| Zhongxing WXT | 620,214,413 A shares (L) | 35.52(L) | 42.63(L) |
| Xi'an Microelectronics | 620,214,413 A shares (L) | 35.52(L) | 42.63(L) |
| China Aerospace Times Electronics Corporation | 620,214,413 A shares (L) | 35.52(L) | 42.63(L) |
| China Aerospace Science and Technology Corporation | 620,214,413 A shares (L) | 35.52(L) | 42.63(L) |
| FRM LLC | 23,260,118 H shares (L) | 1.33(L) | 7.98(L) |
| Goldman Sachs (Asia) L L C | 11,622,000 H shares (L) | 1.21(L)[Note] | 7.26(L)[Note] |
| Goldman Sachs (Cayman) Holding Company | 11,622,000 H shares (L) | 1.21(L)[Note] | 7.26(L)[Note] |
| Aranda Investments (Mauritius) Pte Ltd | 11,141,800 H shares (L) | 1.16(L)[Note] | 6.96(L)[Note] |
| Massachusetts Financial Services Company ("MFS") | 8,428,100 H shares (L) | 0.88(L)[Note] | 5.26(L)[Note] |
| Sun Life Financial, Inc. | 8,428,100 H shares (L) | 0.88(L)[Note] | 5.26(L)[Note] |

(L) long position

Note: Shareholdings as percentage of total share capital and class shares are calculated on the basis of the Company's total share capital (959,521,650 shares) and total number of H shares (160,151,040 shares) before the capitalisation of capital reserves on 10 July 2008.

Save as disclosed above, as at 30 June 2009, so far as the Directors, Supervisors and senior management of the Company are aware, no person had an interest or short position in the shares and underlying shares of the Company that was required to be recorded in the register maintained pursuant to Section 336 of the Securities and Futures Ordinance.

## 4. Purchase, sale and redemption of shares

During the reporting period, the Group did not purchase, sell or redeem any listed securities of the Company.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## (I) CHANGES IN THE SHAREHOLDINGS OF THE COMPANY'S DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the reporting period, the effective shareholdings in the issued share capital of the Company held by and Subject Shares under the Share Incentive Scheme granted to the Directors, Supervisors and senior management of the Company at the end of the period are as follows:

| No | Name | Title | Number of A shares held at the beginning of the period (shares) | Increase in the number of shares held during the reporting period | Decrease in the number of shares held during the reporting period | Number of A shares held at the end of the reporting period (shares) | Reason for the change | Number of Subject Shares granted under the Phase I Share Incentive Scheme of the Company (shares) |
|---|---|---|---|---|---|---|---|---|
| **Directors of the Company** | | | | | | | | |
| 1 | Hou Weigui | Chairman | 507,466 | 152,240 | – | 659,706 | Note 1 | – |
| 2 | Wang Zongyin | Vice Chairman | – | – | – | – | | 18,200 |
| 3 | Xie Weiliang | Vice Chairman | – | – | – | – | | 18,200 |
| 4 | Zhang Junchao | Director | – | – | – | – | | 18,200 |
| 5 | Li Juping | Director | – | – | – | – | | 18,200 |
| 6 | Dong Lianbo | Director | – | – | – | – | | 18,200 |
| 7 | Yin Yimin | Director and President | 270,442 | 81,132 | – | 351,574 | Note 1 | – |
| 8 | Shi Lirong | Director and Executive Vice President | 154,064 | 46,219 | – | 200,283 | Note 1 | – |
| 9 | He Shiyou | Director and Executive Vice President | 147,410 | 44,223 | – | 191,633 | Note 1 | – |
| 10 | Zhu Wuxiang | Independent Director | – | – | – | – | | – |
| 11 | Chen Shaohua | Independent Director | – | – | – | – | | – |
| 12 | Qiao Wenjun | Independent Director | – | – | – | – | | – |
| 13 | Mi Zhengkun | Independent Director | – | – | – | – | | – |
| 14 | Li Jin | Independent Director | – | – | – | – | | – |
| **Supervisors of the Company** | | | | | | | | |
| 15 | Zhang Taifeng | Chairman of the Supervisory Committee | 170,352 | 51,106 | – | 221,458 | Note 1 | – |
| 16 | Wang Wangxi | Supervisor | – | – | – | – | | – |
| 17 | He Xuemei | Supervisor | – | – | – | – | | – |
| 18 | Qu Deqian | Supervisor | 14,028 | 4,208 | – | 18,236 | Note 1 | – |
| 19 | Wang Yan | Supervisor | – | – | – | – | | – |
| **Senior management officers of the Company** | | | | | | | | |
| 20 | Wei Zaisheng | Executive Vice President and Chief Financial Officer | 165,564 | 49,669 | – | 215,233 | Note 1 | – |
| 21 | Xie Daxiong | Executive Vice President | 82,775 | 24,832 | – | 107,607 | Note 1 | 182,000 |
| 22 | Tian Wenguo | Executive Vice President | 19,136 | 5,741 | – | 24,877 | Note 1 | 182,000 |
| 23 | Qiu Weizhao | Executive Vice President | – | – | – | – | | 182,000 |
| 24 | Fan Qingfeng | Executive Vice President | 20,000 | 6,000 | 6,500 | 19,500 | Note 1 and Note 2 | 273,000 |
| 25 | Chen Jie | Senior Vice President | 142,300 | 42,690 | – | 184,990 | Note 1 | 182,000 |
| 26 | Zhao Xianming | Senior Vice President | 15,000 | 4,500 | – | 19,500 | Note 1 | 327,600 |
| 27 | Pang Shengqing | Senior Vice President | 15,300 | 4,591 | – | 19,891 | Note 1 | 273,000 |
| 28 | Zeng Xuezhong | Senior Vice President | 30,000 | 9,000 | – | 39,000 | Note 1 | 273,000 |
| 29 | Xu Huijun | Senior Vice President | 15,000 | 4,500 | – | 19,500 | Note 1 | 327,600 |
| 30 | Ye Weimin | Senior Vice President | 57,326 | 17,198 | – | 74,524 | Note 1 | 182,000 |
| 31 | Ni Qin | Senior Vice President | 130,376 | 39,113 | – | 169,489 | Note 1 | 182,000 |
| 32 | Wu Zengqi | Senior Vice President | 20,000 | 6,000 | – | 26,000 | Note 1 | 273,000 |
| 33 | Zhu Jinyun | Senior Vice President | – | – | – | – | | 253,708 |
| 34 | Zhang Renjun | Senior Vice President | – | – | – | – | | – |
| 35 | Feng Jianxiong | Secretary to the Board | 10,000 | 3,000 | – | 13,000 | Note 1 | 182,000 |
| **Total** | | | **1,986,539** | **595,962** | **6,500** | **2,576,001** | | **3,365,908** |

Note 1: The profit distribution and capitalisation of capital reserves for 2008 (creation of 3 shares for every 10 shares and RMB3 for every 10 shares (including tax) in cash) were implemented on 4 June 2009. The shareholdings of Directors, supervisors and senior management are adjusted accordingly.

Note 2: Shareholdings were reduced in accordance with the provisions of "Administrative Rules for Company Shareholdings by Directors, Supervisors and Senior Management of Listed Companies and Their Changes".

Note 3: None of the Company's Directors, Supervisors and senior management held H shares in the issued share capital of the Company during the reporting period.

Note 4: Subject shares granted under the Phase I Share Incentive Scheme of the Company have been registered with China Securities Depository and Clearing Company Limited, Shenzhen Branch and the release of lock-up for the Subject Shares of the Phase I Share Incentive Scheme of the Company was completed on 22 July 2009. A total of 673,182 Subject Shares granted to 19 directors and senior management officers currently in office shall continue to be locked up and subject to sale restriction under the relevant regulations of the Company Law and the Guidelines for the Administration of Company Shareholdings by Directors, Supervisors and Senior Management Officers of Companies Listed on Shenzhen Stock Exchange and Changes in Shareholdings (《深圳證券交易所上市公司董事、監事和高級管理人員所持本公司股份及其變動管理業務指引》). For details, please refer to the "Announcement of the Completion of Release of Lock-up for Subject Shares under the First Unlocking of the Phase I Share Incentive Scheme" of the Company dated 23 July 2009.

## (II) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### 1. There was no change in the Directors of the Company during the reporting period.

Mr. Chen Shaohua, Mr. Zhu Wuxiang and Mr. Qiao Wenjun, three of the Independent Directors of the Board of Directors of the Company, resigned from their respective office of Independent Director of the Fourth Session of the Board of Directors of the Company with effect from 21 July 2009, the date on which the six-year term (being the statutory maximum term) of their offices concluded.

At the First Extraordinary General Meeting of the Company for 2009 convened on 30 June 2009, Ms. Qu Xiaohui, Mr. Chen Naiwei and Mr. Wei Wei were elected Independent Directors of the Fourth Session of the Board of Directors, with a term commencing on 22 July 2009 and ending on the conclusion of the Fourth Session of the Board of Directors (i.e., 29 March 2010).

### 2. There was no change in the Supervisors of the Company during the reporting period.

### 3. Changes in the senior management of the Company during the reporting period were as follows:

At the Twenty-second Meeting of the Fourth Session of the Board of Directors of the Company held on 19 March 2009, the resignation of Ms. Fang Rong as Senior Vice President and the appointment of Mr. Zhu Jinyun and Mr. Zhang Renjun respectively as Senior Vice President were approved.

## (III) INTERESTS OF THE COMPANY'S DIRECTORS, SUPERVISORS AND PRESIDENT IN SHARES OR DEBENTURES

The interests in shares of the Company held by Directors, Supervisors and the President of the Company as at 30 June 2009 are set out in the section headed "Changes in the Shareholdings of the Company's Directors, Supervisors and Senior Management" of this Report.

Save as disclosed above, as at 30 June 2009, none of the Directors, Supervisors and the President had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) that is required to be recorded in the register to be kept under Section 352 of the Securities and Futures Ordinance, or otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Hong Kong Stock Exchange Listing Rules.

As at 30 June 2009, none of the Directors, Supervisors or the President, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

# REPORT OF THE BOARD OF DIRECTORS

The Board of Directors of the Company is pleased to present its interim report together with the financial statements of the Group for the six months ended 30 June 2009.

**FINANCIAL RESULTS**

Please refer to page 195 and page 288 of this report for the results of the Group for the six months ended 30 June 2009 prepared in accordance with PRC ASBEs and HKFRSs.

## (I) REVIEW OF BUSINESS IN THE FIRST HALF OF 2009

### 1. Overview of the PRC telecommunications industry in the first half of 2009

During the first half of 2009, the three leading PRC carriers continued to step up with their 3G network building, complemented by an increasingly diverse range of competitive behaviour. In general, overall carriers' investments sustained stable growth, while mobile equipment remained a key subject for carriers' investments. According to statistics published by the Ministry of Industry and Information Technology, revenue for the domestic telecommunications sector grew by 2.3% to RMB417.07 billion for the first half of 2009, as compared to the same period last year. New fixed asset investments grew 13.6% to RMB129.14 billion. Total telecommunications business volume and revenue for the second quarter grew by 12.7% and 2.7%, respectively, beating the corresponding growth rates for the first quarter.

### 2. Overview of the global telecommunications industry in the first half of 2009

Intense competition remained in the global telecommunications market during the first half of 2009. Despite a slowdown in overall growth, revenue from global mobile voice businesses continued to account for a major portion in carriers' income, with stable development reported in emerging markets such as the Asia Pacific and Latin America. The global 3G business had moved into the stage of rapid development after a prolonged induction period. Regionally speaking, 2G and 3G networks in developed countries had moved into the replacement stage, while network construction was at its peak in emerging markets. There was growing demand for bandwidth upgrade and service innovation among carriers, as they sought to cope with the fast penetration of 3G and the development of mobile Internet connections driven by carriers' attempts to gain an upper hand in market competition

### 3. Operating results of the Group for the first half of 2009

The Group delivered positive operating results for the first half of 2009 as it succeeded in holding down the impact of the financial crisis. The Group gained new market shares in the global wireless market, particularly in the 3G sector, while synchronous developments were achieved in the sectors for FTTX and carriers networks. We also maintained stable growth in our terminal business.

Operating revenue of the Group for the first half of 2009 amounted to RMB27.71 billion, representing an increase by 40.4% as compared to the same period last year. Net profit grew 40.5% to RMB780 million. Earnings per share amounted to RMB0.45.

***(1) By market***

*The domestic market*

Development of the domestic equipment manufacturing industry gained pace during the period with the benefit of the full-scale construction of 3G networks in China. The Group reported operating revenue of RMB14.95 billion in the domestic market during the reporting period, representing a year on-year growth of 111.7%. The performance of the Company's wireless products at the network tenders of China Unicom and China Telecom held during the first half of the year was in line with expectations. On the back of its cost advantage and customisation capabilities, the Company achieved significant breakthroughs in the coastal provinces and other prosperous regions.

*The international market*

During reporting period, the Group's revenue from its international operations grew 0.7% to RMB12.76 billion and accounted for 46.0% of its total operating revenue. Second-generation (2G) network construction and capacity expansion in key markets in developing countries coupled with the demand for bandwidth upgrades and innovative services in developed countries, formed the cornerstone that underpinned the stable development of the Group's international market. Meanwhile, the Company was charting new frontiers in its cooperation with global mainstream carriers, creating opportunities for in-depth market development in future.

***(2) By product***

Analysed by products, the Group registered year-on-year revenue growth of 46.2% for carriers' networks, 29.8% for terminal products and 29.2% for telecommunication software systems, services and other products during the reporting period.

*Carriers' networks*

While the construction of 2G networks (represented mainly by GSM networks) continued to account for a dominant share in overall capital expenditure during the first half of 2009, products and technologies for 2/3G amalgamation solutions (SDR solutions) became a growing focus for carriers as research and development was closing in to getting ready for commercial application, as the global 3G market continued to expand rapidly.

In terms of wireless products, solid foundations had been laid for greater cooperation with international as well as domestic mainstream carriers in future, as the Group capitalised on opportunities presented by domestic 3G construction to put itself in a dominant position in 3G project tenders for three modes. Progress was also being made in the Group's cooperation with mainstream carriers in Europe and America.

In terms of wireline products, the Company continued to be a forerunner in XDSL, while in FTTX integrated competitive strengths with a global leading edge had been fostered. The Company maintained favourable market positions for carrier networks, core networks, data and service products.

*Terminal*

Revenue for carriers and terminal manufacturers was generally affected during the first half of 2009 as recovery of consumers' demand for terminals was slow amid continued weakness in the global economy. Against an unfavourable macro-economic environment, however, the terminal business of the Group still managed a 29.8% growth.

The Group attained significant progress in product and market mix during the reporting period as it dispensed major efforts to develop 3G products, data cards and smart phones in line with carriers' requirements, while continuing to improve its market share and competitive strengths for carriers' handset customisation and maintain its dominance in the low-end market for GSM and CDMA terminal products. In the case of 3G products, the Group has by now launched over 40 terminal products in nine categories for the three modes, covering virtually all types of 3G terminal products. Market-wise, our terminal products (3G products in particular) managed to break into the three leading high-end markets of Europe, North America and Japan. In terms of high-end products, the smart phones of the Company tapped the mainstream market comprising carriers in developed countries and the three leading PRC carriers. Meanwhile, the Group continued to increase investment in new products and technologies, with systematic developments in the investment and research and development of LTE and WIMAX technologies to foster competitive strengths for its terminal products.

*Telecommunication software systems, services and other products*

Growth for the segment was driven by stronger sales of fixed terminals and service products.

## (II) MANAGEMENT DISCUSSION AND ANALYSIS PREPARED IN ACCORDANCE WITH PRC ASBEs

The financial data below are extracted from the Group's unaudited financial statements prepared in accordance with PRC ASBEs. The following discussion and analysis should be read in conjunction with the Group's financial statements and the accompanying notes thereto.

### 1. Overall operating results of the Group during the reporting period

Unit: RMB in thousands

| Item | Six months ended 30 June 2009 | Six months ended 30 June 2008 | Percentage of increase/ decrease |
|---|---|---|---|
| Operating revenue | **27,707,646** | 19,728,984 | 40.44% |
| Operating profit | **633,655** | 462,922 | 36.88% |
| Net profit | **783,367** | 557,386 | 40.54% |

Note: Operating revenue, operating profit and net profit increased substantially over the same period last year primarily as a result of expanded business scale.

### 2. Breakdown of principal operations by industry and product segments with year-on-year comparison

| By industry or product | Operating revenue (RMB in thousands) | Operating Costs (RMB in thousands) | Gross profit margin | Year-on-year Increase/ decrease in operating revenue | Year-on-year Increase/ decrease in operating costs | Year-on-year Increase/ decrease in gross profit margin |
|---|---|---|---|---|---|---|
| **I. By industry** | | | | | | |
| Manufacturing of communication equipment | 27,707,646 | 18,824,349 | 32.06% | 40.44% | 43.67% | –1.53% |
| **2. By product** | | | | | | |
| Carriers' networks | 18,796,810 | 12,419,048 | 33.93% | 46.24% | 52.22% | –2.59% |
| Terminal* | 5,575,904 | 4,071,617 | 26.98% | 29.83% | 28.78% | 0.60% |
| Telecommunication software systems, services and other products | 3,334,932 | 2,333,684 | 30.02% | 29.20% | 30.98% | –0.95% |
| **Total** | 27,707,646 | 18,824,349 | 32.06% | 40.44% | 43.67% | –1.53% |
| Of which: connected transactions** | 60,940 | 36,009 | 40.91% | 26.28% | 15.98% | 5.25% |
| Pricing principle for connected transactions | The prices for connected transactions between the Company and connected parties were basically consistent with market prices. | | | | | |
| Statement on the necessity and the ongoing nature of the connected transactions | Sales by the Company to the connected parties mainly related to distribution of the Company's products by the parties as agent. Such transactions will continue in future. | | | | | |

Of which: connected transactions involving sales of products or provision of labour services to the controlling shareholder and its subsidiaries by the Company during the reporting period amounted to RMB337,000.

* The product category of "Handset" has been renamed "Terminal" for a more accurate representation of the Company's product classification. The change does not affect the figures set out above. Terminal products of the Company include handsets and data card products.

** The above references to connected transactions relate to connected transactions as defined under PRC laws and regulations.

**3. Breakdown of principal operations by geographic region**

Unit: RMB in thousands

| Region | Operating revenue | Year-on-year Increase/ decrease in operating revenue |
|---|---|---|
| The PRC | 14,950,479 | 111.71% |
| Asia (excluding the PRC) | 6,450,316 | 14.16% |
| Africa | 2,497,366 | -34.87% |
| Other regions | 3,809,485 | 19.69% |
| Total | 27,707,646 | 40.44% |

**4. Indicators for major products accounting for over 10% of the Group's operating revenue for the reporting period:**

Unit: RMB in thousands

| By product | Operating revenue | Operating costs | Gross profit margin |
|---|---|---|---|
| Carriers' networks | 18,796,810 | 12,419,048 | 33.93% |
| Terminal | 5,575,904 | 4,071,617 | 26.98% |
| Telecommunication software systems, services and other products | 3,334,932 | 2,333,684 | 30.02% |

**5. Reasons for substantial change in the Company's principal business and its structure, breakdown of profit, profitability of principal business during the reporting period**

(1) There was no significant change in the principal business and its structure during the reporting period compared to the same period last year.

(2) Changes in the breakdown of profit during the reporting period as compared to the same period last year are set out as follows:

| Item | As a percentage of total profit for the six months ended 30 June 2009 | As a percentage of total profit for the six months ended 30 June 2008 | Change (percentage points) |
|---|---|---|---|
| Operating profit | **52.32%** | 53.29% | -0.97% |
| Expenses for the period | **620.76%** | 667.40% | -46.64% |
| Investment gains | **0.19%** | 5.95% | -5.76% |
| Non-operating income and expenses, net | **47.68%** | 46.71% | 0.97% |

Note: The substantial decrease in expenses for the period as a percentage of total profit was mainly attributable to the expansion of the Group's business scale.

(3) There was no significant change in the profitability (gross profit margin) of principal business compared to the same period last year.

**6. During the reporting period, the Company was not engaged in any other operating activities that had a significant impact on net profit.**

**7. The Company does not hold any interest in any investee company in which the income generated accounted for more than 10% of the net profit of the Company.**

**8. Difficulties encountered by the Group in its operations during the first half of 2009**

The Company faced a challenging task in international market development during the reporting period, as the global economy remained in gloomy conditions in the aftermath of the financial tsunami. International carriers were generally more concerned with investment return and the cost for long-term ownership, compelling the Company to raise its standards in terms of cost control, business marketing and integrated solutions.

**9. Investments**

***(1) Use of proceeds during the reporting period***

The Company issued 40 million bonds cum warrants with a value of RMB4 billion ("Bonds cum Warrants") on 30 January 2008. The net proceeds of RMB3,961,443,520 raised from the issue of the Bonds cum Warrants after deduction of the underwriting commission, sponsorship fees and registration fees were deposited into the designated account of the Company opened with National Development Bank, Shenzhen Branch (account number: 44301560040310230000) on 5 February 2008. A capital verification report in respect thereof was issued by Shenzhen Nanfang-Minhe CPA on 5 February 2008.

The application of proceeds from the issue of the Bonds cum Warrants during the reporting period was in compliance with the Administrative Measures of Shenzhen Stock Exchange for Issue Proceeds of Listed Companies (《深圳證券交易所上市公司募集資金管理辦法》). The Company utilised RMB81,443,500 of the issue proceeds during the reporting period and a total of RMB3,961,443,500 had been utilised on an accumulative basis. As at 30 June 2009, proceeds from the issue of Bonds cum Warrants by the Company had been fully utilised.

As at the end of the reporting period, the said issue proceeds of the Company were applied as follows:

Unit: RMB in ten thousands

| | | | |
|---|---|---|---|
| Gross amount of issue proceeds | 396,144.35 | Gross amount of issue proceeds utilized during the reporting period | 8,144.35 |
| Gross amount of issue proceeds for which use has been changed | – | Gross amount of issue proceeds utilized to-date | 396,144.35 |
| Proportion of gross amount of issue proceeds for which use has been changed | – | | |

| Projects committed | Any change in project (including partial changes) | Total amount of issue proceeds committed to investment | Investment amount planned as at the end of the period (1) | Amount invested during the period | Accumulated investment as at the end of the period (2) | Difference between accumulated investment and investment amount planned as at the end of the period (2)-(1) | Progress of investment as at the end of the period (2)/(1) | Period for return of capital (year) | Earnings | Anticipated benefits attained | Significant change to project feasibility |
|---|---|---|---|---|---|---|---|---|---|---|---|
| The building-up of the research and development and production environment and scale production capacity of TD-SCDMA HSDPA system equipment | No | 18,782 | N/A | – | 18,782.00 | N/A | N/A | 3.03 | See below | Yes | No |
| The building-up of the development environment and scale production capacity of TD-SCDMA terminal products | No | 11,776 | N/A | – | 11,776.00 | N/A | N/A | 4.12 | See below | Yes | No |
| Industrialisation of TD upgrade technology | No | 67,326 | N/A | 13,460.92 | 54,672.43 | N/A | N/A | 5.70 | See below | Yes | No |
| Construction of innovative handset platform | No | 174,915 | N/A | 38,032.91 | 174,915.00 | N/A | N/A | 5.29 | See below | Yes | No |
| Construction of next generation broadband wireless mobile SDR platform | No | 53,358 | N/A | 13,612.97 | 51,119.94 | N/A | N/A | 5.93 | See below | Yes | No |
| Industralisation of next generation IP-based amalgamation network for full multi-media services | No | 39,727 | N/A | – | 39,727.00 | N/A | N/A | 5.49 | See below | Yes | No |
| Research, development and production of integrated network management system | No | 56,635 | N/A | 14,356.48 | 44,844.19 | N/A | N/A | 5.31 | See below | Yes | No |
| Industrialisation of xPON optical access | No | 49,371 | N/A | 14,819.29 | 47,548.31 | N/A | N/A | 5.42 | See below | Yes | No |
| Industrialisation of next generation optical network transmission equipment | No | 64,108 | N/A | 12,140.50 | 52,079.97 | N/A | N/A | 5.05 | See below | Yes | No |
| Construction of ICT integrated business platform | No | 99,647 | N/A | 24,693.83 | 79,610.42 | N/A | N/A | 3.94 | See below | Yes | No |
| Industrialisation of RFID systems integration | No | 19,394 | N/A | 5,934.18 | 15,806.07 | N/A | N/A | 5.02 | See below | Yes | No |
| Total | – | 655,039 | – | 137,051.08 | 590,881.33 | – | – | – | – | – | – |

| | |
|---|---|
| Non-fulfillment of scheduled progress or anticipated earnings and reasons | The scheduled progress of projects utilising proceeds from the issue of Bonds cum Warrants of the Company was fulfilled. |
| Significant change to project feasibility | Nil |
| Change to implementation location of investment projects using issue proceeds | Nil |
| Change to implementation method of investment projects using issue proceeds | Nil |
| Initial investments and fund replacements in investment projects using issue proceeds | In order to expedite the construction of issue proceeds investment projects, the Company had used internal funds for initial investments in issue proceed investment projects prior to the receipt of the issue proceeds. As at 31 December 2007, the actual amount invested using internal funds was RMB1,576,936,600. In order to increase capital efficiency and to reduce financial expenses, the Company subsequently replaced the initially invested internal funds with issue proceeds. For details of the replacement, please refer to the "Announcement on the Replacement of Internal Funds Previously Invested in Issue Proceed Investment Projects with Proceeds from the Issue of Bonds cum Warrants" of the Company dated 14 March 2008. |
| Application of idle funds as additional working capital | There was no application of idle funds as additional working capital. |
| Amount of issue proceeds in surplus of requirements for project implementation and reasons | There were no Company issue proceeds in surplus of requirements for project implementation. |
| Use and whereabouts of unutilised issue proceeds | As at 30 June 2009, proceeds from the issue of Bonds cum Warrants by the Company had been fully utilised |
| Issues in and other information on the use of issue proceeds and its disclosure | Nil |

Note 1: There was no adjustment to the total amount of issue proceeds committed to investment.

Note 2: As at 30 June 2009, the Company had invested RMB5,908,813,300 in issue proceed investment projects. Investments in certain projects had reached the agreed amounts set out in issue prospectuses and the portion in excess had been funded by the Company's internal resources. Such portion would be replaced if the warrants are exercised upon maturity.

The progress of the projects and the earnings generated are discussed as follows:

*The building-up of the R&D and production environment and scale production capacity of TD-SCDMA HSDPA system equipment*

With the completion of ancillary facilities for production environments such as the assembly environment, adjustment and testing environment and high-temperature aging environment, the project was ready for large-scale production and commercial supply. System equipment for the Phase I and Phase II tenders of China Mobile reported stable commercial application for over 90 days.

*The building-up of the development environment and scale production capacity of TD-SCDMA terminal products*

On the basis of the research and development of TD-SCDMA terminals, ZTE completed the development, commercial production and market launch of various HSDPA-based products, such as handsets, data cards, modules, and fixed terminals. In addition, the research and development of dual-mode terminals was commenced to satisfy forthcoming market demand for dual-mode TD-SCDMA terminals. ZTE has plans to kick off platform introduction and product development in the second half of 2009 to address the forthcoming HSUPA platform. Our focus on the second half of 2009 will be the development of new products that meet the needs of the market.

*Industrialisation of TD upgrade technology*

In response to the official confirmation of TD-LTE as the major approach to TD upgrade technologies by the PRC Ministry of Industry and Information Technology, ZTE built an experienced research team to conduct the research and development of key technologies, system products and networking technologies for TD-LTE, with the aim of driving TDLTE industrialisation.

In October 2008, the TD-LTE pre-commercial sample set developed by ZTE was unveiled at the Beijing Communications Exhibition.

In May 2009, the leading-edge SDR commercial technology platform developed by ZTE passed the GSM, TD-SCDMA and TD-LTE co-platform testing.

*Construction of innovative handset platform*

Handset TVs: The new handset service platform was put to commercial application after initial completion of its platform architecture, initial development of domestic and international mainstream handset TV standards and related technologies, and completion of testing for major markets. Next the Group will continue to improve its functionality and continue to track the development and new technological progress of other TV standards.

Smart handsets: The WCDMA full keypad handsets operating on the Qualcomm platform are currently available for dispatch in the overseas market, while in the PRC they were the only domestic-made high-end smart phones in the first series of China Unicom's customised handset models. The large touch-screen smart handset is currently under development.

GoTa handsets: Subsequent to the completion of the research and development and commercial production of the explosion-proof terminal (G780IS) and the off-line direct access terminal (G783), four new models of GoTa terminals, namely G880, G660, G79 and S580, were launched during the period.

IMS customer-end software platform: The commercial version of the IMS customer-end software was completed and launched on the TD-SCDMA terminal during the first half of 2009.

*Construction of next-generation broadband wireless mobile SDR platform*

Currently, the switching to SDR platform has been completed in respect of all wireless base station products of the Company, namely, GSM/UMTS/CDMA/WIMAX/LTE/TD-SCDMA. Meanwhile, efforts to buffer up the SDR platform continued as research and development of a triple-layer platform and a double-dispatch platform was underway. With most of the above-mentioned products launched for commercial dispatch, ZTE's position as the leader for SDR products was well established both at home and in the international market, contributing significantly to the competitiveness of its wireless products.

*Industralisation of next generation IP-based amalgamation network for full multi-media services*

Large-scale deployment was being made at home and abroad in relation to the ZIMS™ multi-media network solution, which had won the approval of carrier customers. In connection with the IMS business, ZIMS™ enhanced CDMA functionality in multimedia communications with the provision and connection of China Telecom's first mobile video phone based on its existing CDMA network. ZIMS™ also enhanced IMS functionality in broadband multi-media services as it became the first player in the industry to provide fully-integrated 1080P HD video services, securing large-scale deployment for high-end carriers across the nation. ZIMS™ will continue to roll out new initiatives in network integration, business integration and enhancing users' experience with IMS, in a bid to address the needs of upcoming IMS commercial projects.

*Research, development and production of integrated network management system*

The development of the centralised network management software platform level has been completed and inter-connection among core networks, wireless networks (including GSM, CDMA, WCDMA and TD-SCDMA), transmission networks, data networks and power supply networks, as well as overall topology, alarm management, performance data collection, centralised management and auxiliary functions, such as report generation and event processing flow, can now be facilitated.

*Industrialisation of xPON optical access*

The domestic EPON market grew significantly during the first six months of 2009 as China Telecom and China Unicom continued with the construction of EPON networks in expanded scale. ZTE consolidated its position as the leading brand name for EPON as it continued to distinguished itself from competition in the domestic EPON market on the back of its solid research and development capabilities and comprehensive range of sophisticated products. As domestic carriers are overwhelmingly positive about the prospects of EPON, ZTE is expected to maintain its leadership in the domestic EPON market. Following successful applications in Italy, Algeria, Holland, Brazil, Chile, Hong Kong, Rwanda , Saudi Arabia, Ethiopia and Russia, the Company's EPON and GPON products continued to penetrate high-end markets such as Europe, North America and the Asia Pacific leveraging its strengths in research and development and the range and sophistication of its products.

*Industrialisation of next generation optical network transmission equipment*

The project is currently under smooth progress. The ZXONE 5800 product and iCTN solution were unveiled at the GSMA Mobile World Congress held in Barcelona, while the iWDM solution, a new-generation wave-division transmission system featuring IP and smart-phone qualities as well as a high level of integration, commanded strong approval from the industry as it embarked on a nationwide touring exhibition under the theme of "An Optical Touch of Value" following a press launch in Beijing on 12 March. Elsewhere, our one-stop PTN solution made a high-profile debut at the Vienna assembly of the European PTN Summit Forum to give a major boost to ZTE's brand influence in Europe and the rest of the world, as evidenced by a leap in ZTE's ranking among optical network players according to a survey conducted by OVUM-RHK, a world-renowned consulting agency. As ZTE's industrialisation of next generation optical network transmission equipment continued to roll out, the Company's optical network products were sustaining rapid growth in the global market with steadily rising market shares.

*Construction of ICT integrated business platform*

The primary purpose of the ICT integrated business platform project is to apply IT and CT technological integration in the construction of an operable and manageable integrated business platform for international and domestic carriers for their provision to corporate customers of innovative integrated information services combining communications and information. Efforts in product research and technological innovations continued during the first half of 2009, with a primary focus on key markets. In the PRC, carriers had been increasingly focused the government sector and corporate customers following the launch of 3G, and a growing number of service platforms were being built in this connection. We assisted in the capacity expansion initiatives and new service trials of China Mobile's ADC service, China Telecom's EMA/ EBG/UDB services and China Unicom's BAMP service etc., reinforcing our position in the business relating to carriers' transformation. Internationally, the national-grade data centre constructed on behalf of Ethiopian Telecommunications was duly delivered and put into operation for centralised network management, security control, monitoring and maintenance. Elsewhere, a contract had been signed with Sudan Telecom for the construction of a high-grade integrated service data centre and construction was smoothly underway. ICT integrated service solutions were provided as part of the e-government projects of Ethiopia, Kenya and Nigeria. Mobile office services underpinned by Push Mail were launched on a trial basis in cooperation with leading carriers of various countries.

*Industrialisation of RFID systems integration*

Thanks to the groundwork in technology and market reserves carried out in 2008, the Company reported breakthroughs in research and development as well as market applications for its RFID products during the first six months of 2009. Most hardware products were ready for conversion following elementary development efforts in 2008. Reserve products and technologies intended for market launch in 2010 and 2011 were basically ready, so of which had passed sample testing and verification. As for software products, remote network management products and intermediary products were basically ready for application. Commercial application is in the pipeline as they are currently being tested and verified through applications in various integration projects.

***(2) There were no significant investments using funds other than issue proceeds during the reporting period.***

**10. Other matters**

(1) The Group did not make any profit forecast in respect of the operating results for the reporting period.

(2) The Group did not disclose any business plans for 2009 in the 2008 Annual Report.

(3) As at the end of the first half of 2009, the Group's consolidated gearing ratio and ratio of interest-bearing liabilities was 74.7% and 21.9%, respectively, increasing by 4.6 percentage points and 1.3 percentage points, respectively, as compared to the previous year-end. The increase was mainly attributable to additional bank borrowings and longer purchase payment periods sought by the Group as appropriate to capitalise on the government's loosened monetary policy and lower interest costs. In the second half of 2009, the Group will adjust its credit policy as appropriate depending on changes in the external environment while strengthening management to keep payment collection in a balanced manner, with a view to controlling the gearing ratio at a reasonable level.

## (III) MANAGEMENT DISCUSSION AND ANALYSIS PREPARED IN ACCORDANCE WITH HKFRSs

The financial data below are extracted from the Group's unaudited financial statements prepared in accordance with HKFRSs. The following discussion and analysis should be read in conjunction with the Group's financial statements and the accompanying notes as set out in this report.

**Operating revenue**

*Unit: RMB in millions*

| Product segment | Six months ended 30 June 2009 | | Six months ended 30 June 2008 | |
|---|---|---|---|---|
| | Revenue | As a percentage of operating revenue | Revenue | As a percentage of operating revenue |
| Carriers' networks | **18,796.8** | **67.8%** | 12,853.2 | 65.1% |
| Terminal | **5,575.9** | **20.1%** | 4,294.6 | 21.8% |
| Telecommunication software systems, services and other products | **3,334.9** | **12.1%** | 2,581.2 | 13.1% |
| Total | **27,707.6** | **100.0%** | 19,729.0 | 100.0% |

The following table sets out the operating revenue of the Group and the corresponding percentage of the total operating revenue attributable to the PRC, Asia (excluding the PRC), Africa and other regions for the periods indicated:

*Unit: RMB in millions*

| Region | Six months ended 30 June 2009 | | Six months ended 30 June 2008 | |
|---|---|---|---|---|
| | Revenue | As a percentage of operating revenue | Revenue | As a percentage of operating revenue |
| The PRC | **14,950.4** | **54.0%** | 7,061.6 | 35.8% |
| Asia (excluding the PRC) | **6,450.3** | **23.3%** | 5,650.3 | 28.6% |
| Africa | **2,497.4** | **9.0%** | 3,834.4 | 19.4% |
| Other regions | **3,809.5** | **13.7%** | 3,182.7 | 16.2% |
| Total | **27,707.6** | **100.0%** | 19,729.0 | 100.0% |

The Group reported RMB27,707.6 million in operating revenue for the first half of 2009, a 40.4% growth compared to last year. Operating revenue from international sales was stable, growing 0.7% to RMB12,757.2 million. Analysed by product, revenue growth was reported in all product segments in varying degrees.

The growth in operating revenue from the Group's carriers' networks segment was attributable mainly to the growth in domestic sales of CDMA, TD-SCDMA and WCDMA system equipment.

The increase in operating revenue from the Group's terminal product segment was driven mainly by sales growth for CDMA terminals in the domestic market and for 3G terminals in both the domestic and the European markets.

The increase in operating revenue from the Group's telecommunications software systems, services and other products was mainly driven by growth in the sales of service products and fixed terminals.

**Cost of sales and gross profit**

The following tables set out (1) the cost of sales of the Group and cost of sales as a percentage of total operating revenue and (2) the Group's gross profit and gross profit margin for the periods indicated:

Unit: RMB in millions

| Product segment | Six months ended 30 June 2009 | | Six months ended 30 June 2008 | |
|---|---|---|---|---|
| | Cost of sales | As a percentage of segment revenue | Cost of sales | As a percentage of segment revenue |
| Carriers' networks | **12,746.0** | **67.8%** | 8,303.0 | 64.6% |
| Terminal | **4,108.8** | **73.7%** | 3,184.6 | 74.2% |
| Telecommunication software systems, services and other products | **2,410.4** | **72.3%** | 1,831.7 | 71.0% |
| Total | **19,265.2** | **69.5%** | 13,319.3 | 67.5% |

Unit: RMB in millions

| Product segment | Six months ended 30 June 2009 | | Six months ended 30 June 2008 | |
|---|---|---|---|---|
| | Gross profit | Gross profit margin | Gross profit | Gross profit margin |
| Carriers' networks | **6,050.8** | **32.2%** | 4,550.2 | 35.4% |
| Terminal | **1,467.1** | **26.3%** | 1,110.0 | 25.8% |
| Telecommunication software systems, services and other products | **924.5** | **27.7%** | 749.5 | 29.0% |
| Total | **8,442.4** | **30.5%** | 6,409.7 | 32.5% |

Cost of sales of the Group for the first half of 2009 increased 44.6% as compared to last year to RMB19,265.2 million. The Group's overall gross profit margin of 30.5% was 2.0 percentage points lower versus 32.5% for the same period last year, mainly as a result of strategic investments made towards key regions or telecommunications carriers.

Cost of sales for the Group's carriers' networks amounted to RMB12,746.0 million, a 53.5% increase as compared to the same period last year. The gross profit margin for carriers' networks was 32.2%, which was 3.2 percentage points lower versus 35.4% for the same period last year, reflecting weaker gross profit margins for optical communications system products and GSM system equipment.

Cost of sales for the Group's terminal products amounted to RMB4,108.8 million, increasing by 29.0% compared to the same period last year. Gross profit margin for the Group's terminal segment was 26.3%, versus 25.8% for the same period last year. The higher gross profit margin for terminal was attributable mainly to improved gross profit for terminal products in the domestic market.

Cost of sales for the Group's telecommunications software systems, services and other products amounted to RMB2,410.4 million, increasing by 31.6% compared to for the same period last year. The relevant gross profit margin was 1.3 percentage points lower at 27.7%, compared to 29.0% for the same period last year, reflecting primarily the year-on-year decline in gross profit for services and telecommunication operations products.

**Other income and revenue, net**

Other income and revenue of the Group for the first half of 2009 amounted to RMB793.4 million, representing a 55.7% growth compared to RMB509.6 million for the same period last year. The increase was attributable mainly to exchange gains arising from the appreciation of certain non-USD currency against the US Dollar and growth in value-added tax rebates for software products and government subsidies.

**Research and development costs**

The Group's research and development costs for the first half of 2009 increased by 58.2% to RMB2,606.4 million from RMB1,647.9 million for the same period of 2008, and grew from 8.4% to 9.4% as a percentage of operating revenue. The increase in research and development costs was attributable mainly to increased investments in the research and development of UMTS and TD-SCDMA, etc.

**Selling and distribution costs**

The Group's selling and distribution costs for the first half of 2009 increased by 21.2% to RMB3,230.2 million from RMB2,666.0 million for the same period last year, but decreased from 13.5% to 11.7% as a percentage of operating revenue reflecting economies of scale. The increase in selling and distribution costs was attributable mainly to increased staff costs and travel expenses in line with business expansion and extended market coverage.

**Administrative expenses**

Administrative expenses of the Group for the first half of 2009 increased by 31.1% to RMB1,430.6 million, as compared to RMB1,091.2 million for the same period last year, but decreased from 5.5% to 5.2% as a percentage of operating revenue. The increase in the total amount of administrative expenses reflected mainly expanded business scale and the increase in staff expenses.

**Other expenses**

Other expenses of the Group for the first half of 2009 increased by 12.6% to RMB375.7 million, as compared to RMB333.8 million for the same period last year. This reflected primarily the increase in asset impairment losses.

**Profit from operating activities**

The Group's profit from operating activities for the first half of 2009 increased by 34.9% to RMB1,592.9 million, as compared to RMB1,180.4 million for the same period of 2008, primarily as a result of expanded business scale.

**Finance costs**

Finance costs of the Group for the first half of 2009 increased by 22.0% to RMB392.2 million, as compared to RMB321.6 million for the same period last year, reflecting primarily higher interest payments for interest-bearing bank borrowings.

**Tax**

The Group's income tax expense for the first half of 2009 was RMB342.5 million, which was 71.9% higher as compared to RMB199.2 million for the same period last year. Income tax expense as a percentage of profit before tax also increased from 22.9% to 28.3%, compared to the same period last year, reflecting mainly the reversal of deferred income tax assets and increased profit for certain subsidiaries for the first half of 2009.

**Profit attributable to minority interests**

The Group's minority interests for the first half of 2009 amounted to RMB85.4 million, which was 23.8% lower as compared to RMB112.0 million for the same period last year. Minority interests decreased from 16.7% for the same period last year to 9.8% for the current period as a percentage of net profit, reflecting mainly reduced profit for subsidiaries with a higher level of minority interests.

**Net profit and net profit margin**

Net profit (excluding minority interests) of the Group for the first half of 2009 increased by 40.5% to RMB783.4 million, compared to RMB557.4 million for the same period of 2008. Net profit margin (excluding minority interests) was 2.8%, largely unchanged from the same period in 2008.

**Debt-equity ratio**

As at the end of the first half of 2009, the Group's debt-equity ratio was 46.4%, increasing by 5.6 percentage points as compared to 40.8% at the end of 2008. The increase was mainly attributable to additional bank borrowings sought by the Group as appropriate against to capitalise on the government's loosened monetary policy and lower interest costs.

**Cash flow data**

Unit: RMB in millions

| Items | Six months ended 30 June 2009 | Six months ended 30 June 2008 |
|---|---|---|
| Net cash outflow from operating activities | **(1,792.3)** | (3,495.5) |
| Net cash outflow from investing activities | **(522.3)** | (555.4) |
| Net cash inflow from financing activities | **3,097.5** | 5,267.2 |
| Net increase in cash and cash equivalents | **782.9** | 1,216.3 |

**Operating activities**

The Group had a net cash outflow from operating activities of RMB1,792.3 million for the first half of 2009 compared to RMB3,495.5 million for the same period of 2008, reflecting year-on-year increase of cash outflow for purchases by RMB1,490.8 million mainly as a result of expanded sales, increase of cash outflow for payments made to employees by RMB960.9 million and increase of dividend or interest payments by RMB466.0 million; coupled with increase of cash inflow from operating revenue by RMB5,731.3 million.

**Investing activities**

The net cash outflow from the Group's investment activities for the first half of 2009 was RMB522.3 million compared to a net cash outflow of RMB555.4 million for the same period of 2008, reflecting primarily a RMB296.6 million decrease in the cash outlay for the acquisition of fixed assets, intangible assets and other long-term assets combined with a RMB215.2 million increase in restricted bank deposits.

**Financing activities**

The Group's net cash inflow from financing activities for the first half of 2009 was RMB3,097.5 million, reflecting mainly a net increase of RMB3,063.5 million in bank loans.

**Disclosure required under the Hong Kong Stock Exchange Listing Rules**

In accordance with paragraph 40 of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange Listing Rules"), the Company confirms that, save as disclosed herein, there has been no material change in the current information regarding the Company from the information disclosed in the 2008 Annual Report of the Company in relation to those matters set out in paragraph 32 of Appendix 16 to the Hong Kong Stock Exchange Listing Rules.

## (IV) BUSINESS OUTLOOK AND RISK EXPOSURE FOR THE SECOND HALF OF 2009

### 1. Business outlook for the second half of 2009

Looking to the latter half-year, the Group will seek to consolidate its businesses with the three leading PRC carriers on the back of its initial market shares in the domestic 3G sector. Meanwhile, the Group will seek to maintain its competitive edge in the international market and focus on large, populous countries as potential emerging markets. We will also strengthen cooperation with key strategic carriers in high-end markets such as Western Europe and North America to unfold further opportunities for cooperation with top-tier global carriers, in response to upgrades of communications technologies taking place in developed countries/regions and changes in the competitive scenario for global suppliers.

The Group will continue to implement the strategies of differentiation and cost leadership in the second half of the year, seeking to pursue stable development and deliver sound results by enhancing project-based operations and extending its advantages in cost and technology as well as its ability in one-stop project delivery.

### 2. Business risk exposure

***(1) Macro-economic risks***

The Group will be affected to a certain measure as the financial crisis continues to take its toll on the global economy.

***(2) Foreign exchange risks***

The foreign exchange risk of the Group arose mainly from exchange differences in the conversion of sales and purchases settled in currencies other than RMB (the functional currency of the Group) into RMB. The Group endeavoured to include terms relating to exchange risk aversion or sharing when entering into purchase and sales contracts and sought to enhance its internal management standards by actively managing its foreign exchange position and matching currencies and amounts received or incurred. Where matching was not practicable, derivative products such as foreign exchange forward contracts were employed to lock up exchange rates in varying proportions based on the maturity profile of the outstanding foreign exchange positions, so as to minimise the impact of exchange rate fluctuations on the principal business of the Group. With a strong emphasis on the research of exchange risk management policies, models and strategies, the Group has formulated and improved on a continued basis a foreign exchange risk management policy that takes into account the actual conditions of its operations and international standards in risk management and has gained considerable experience in the conduct of exchange risk management through the extensive use of exchange-related derivative products.

***(3) Interest rate risks***

As the size of the Group's outstanding loans continued to grow, the total amount of interest payments owed by the Group will vary in line with any fluctuations in the loan interest rates determined by the State and the profitability of the Group will be affected as a result.

***(4) Credit risks***

The Group will encounter differing customer groups in developing its business of providing one-stop communications solutions, and its business will be affected by the varied credit profiles of these customers.

***(5) Country risks***

Given recent developments in the global economy and financial market, the Group will continue to be exposed to political risks, sovereignty risks and transfer risks in countries where its projects are operated and a very high level of operational and risk control capabilities is required.

# MATERIAL MATTERS

## (I) CORPORATE GOVERNANCE

### 1. The Company's corporate governance is in compliance with relevant requirements of the CSRC

The Company's corporate governance was in compliance with provisions of relevant regulatory documents on corporate governance of listed companies issued by the CSRC. In accordance with regulatory requirements, the Company revised the Articles and expressly provided for a cash dividend distribution policy to ensure stable investment return for investors.

The Company is working to improve its internal control regime in accordance with the requirements of the "Basic Principles of Corporate Internal Control" , the "Practical Guide for Corporate Internal Control" and the "Guidelines for Internal Control of Listed Companies of the Shenzhen Stock Exchange" .

### 2. The Group complied with all the principles and code provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Hong Kong Stock Exchange Listing Rules throughout the reporting period.

### 3. Securities Transactions by Directors

The Directors of the Company confirmed that the Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Hong Kong Stock Exchange Listing Rules. Having made due enquiries with all Directors and Supervisors of the Company, the Company was not aware of any information that reasonably suggested that the Directors and Supervisors had not complied with the requirements in the Model Code during the reporting period.

### 4. The Audit Committee

The Audit Committee of the Company has discussed with the management regarding the accounting standards and practices adopted by the Group, and has also discussed and reviewed the report, including the financial statements of the Group for the six months ended 30 June 2009.

## (II) IMPLEMENTATION OF THE 2008 PROFIT DISTRIBUTION PROPOSAL

During the period, the plan of profit distribution and capitalisation of capital reserves for 2008 (RMB3 for every 10 shares (including tax) in cash and creation of 3 shares for every 10 shares by way of capitalisation of capital reserves based on the Company's total share capital of 1,343,330,310 shares as at 31 December 2008) was considered and approved at the 2008 annual general meeting, class meeting for holders of domestic share and class meeting for holders of overseas-listed foreign shares held on 19 May 2009. The record date 4 June 2009 and the ex-rights/ex-dividend date was 5 June 2009, for A shares. In respect of H shares, the record date was 17 April 2009, and the dividend payment date was 5 June 2009. The date on which bonus A shares not subject to lock-up were listed and the dealing of bonus H shares commenced was 5 June 2009. For details please refer to the announcement of the Company "Bonus Shares Issue and Dividends payment, Date of Dispatch of Shares Certificates and Cheques, Date of Commencement of Dealings, Withholding of Enterprise Income Tax for Non-resident, Enterprise Shareholders" dated 26 May 2009 and the "Announcement of profit distribution and capitalisation of capital reserves for 2008" dated 27 May 2009.

## (III) PROFIT DISTRIBUTION PROPOSAL AND PROPOSAL FOR SHARE CAPITAL INCREASE BY WAY OF TRANSFER FROM RESERVES FOR THE SIX MONTHS ENDED 30 JUNE 2009

The Company does not propose any profit distribution or share capital increase by way of transferring from reserves for the six months ended 30 June 2009.

## (IV) UPDATES ON THE BONDS CUM WARRANTS ISSUED BY THE COMPANY

### 1. The first interest payment in respect of the Bonds cum Warrants

The Company made a total interest payment of RMB32,000,000 in respect of the Bonds cum Warrants on 2 February 2009, the details of which have been disclosed by way of announcements published in China Securities Journal, Securities Times, Shanghai Securities News and on http://www.cninfo.com.cn. For other details of the Bonds cum Warrants issued by the Company, please refer to the sections headed "Material Matters" and "Report of the Board of Directors" in the 2008 annual report.

### 2. Past adjustments to exercise prices and the latest adjusted exercise price

On 10 July 2008, the Company's plans for profit distribution and capitalisation of capital reserve for 2007 were implemented. The exercise price of the warrant 中興ZXC1 was adjusted to RMB55.582 and the exercise ratio was adjusted from 1:0.5 to 1:0.703, respectively.

On 5 June 2009, the Company's plans for profit distribution and capitalisation of capital reserve for 2008 were implemented and the exercise price and ratio of the warrant 中興ZXC1 were adjusted from RMB55.582 to RMB42.394 and from 1:0.703 to 1:0.922, respectively.

## (V) UPDATES ON THE PHASE I SHARE INCENTIVE SCHEME OF THE COMPANY

1. At the Twenty-sixth Meeting of the Fourth Session of the Board of Directors held on 6 July 2009, the "Resolution of the Company regarding the Matters relating to the Implementation of the Phase I Share Incentive Scheme" was considered and passed, confirming the adjustment of the number of Subject Share quotas under the Phase I Share Incentive Scheme of the Company as a result of the enlarged share capital of the Company and the lapse of Subject Share quotas granted to certain employees who have subsequently departed or waived on the Phase I Share Incentive Scheme. The total number of Scheme Participants for the grant was 4,022 after adjustments. Registration with China Securities Depository and Clearing Company Limited, Shenzhen Branch had been completed and the total share capital of the Company had increased by 85,006,813 shares.

2. According to the Phase I Share Incentive Scheme of the Company, Subject Shares under the First Award shall be subject to a lock-up period of 2 years commencing from 13 March 2007, the date on which implementation is approved at the First Extraordinary General Meeting of the Company for 2007. As at 12 March 2009, the lock-up period for the Subject Shares under the First Award had expired and the unlocking period had commenced. As considered and approved at the Twenty-sixth Meeting of the Fourth Session of the Board of Directors of the Company, the first unlocking conditions for the Subject Shares under the First Award were deemed to have been satisfied, 3,265 Scheme Participants were confirmed to have fulfilled the first unlocking conditions for the Subject Shares under the Phase I Share Incentive Scheme and it was approved that the Company may proceed with the first unlocking of the Subject Shares under the First Award of the Phase I Share Incentive Scheme. The total number of Subject Shares under the first unlocking was 15,269,290 A shares, among which 709,582 Subject Shares granted to 19 Directors and senior management officers of the Company currently in office and one former senior management officer who had resigned with effect from 19 March 2009 remained under lock-up and subject to sale restriction under the relevant regulations of the Company Law and the Guidelines for the Administration of Company Shareholdings by Directors, Supervisors and Senior Management Officers of Companies Listed on Shenzhen Stock Exchange and Changes in Shareholdings (《深圳證券交易所上市公司董事、監事和高級管理人員所持本公司股份及其變動管理業務指引》). Therefore a total of 14,559,708 Subjects Shares were released from sale restrictions, which was completed on 22 July 2009.

For details, please refer to the "Announcement of the Resolutions passed at the Twenty-sixth Meeting of the Fourth Session of the Board of Directors of the Company" and the "Announcement of the Completion of Release of Lock-up for Subject Shares under the First Unlocking of the Phase I Share Incentive Scheme" published by the Company on 7 July 2009 and 23 July 2009, respectively.

For details of the effects of the Phase I Share Incentive Scheme of the Company on the financial position and operating results of the Company for the reporting period and future periods, please refer to Note III.21 to financial statements prepared under PRC ASBEs.

## (VI) ADDITIONAL SHARE ACQUISITION PLAN PROPOSED BY SHAREHOLDERS INTERESTED IN MORE THAN 30% OF THE SHARES OF THE COMPANY DURING THE REPORTING PERIOD AND THE IMPLEMENTATION OF THE PLAN

On 10 October 2008, Zhongxingxin, the controlling shareholder of the Company, acquired additional A shares in the Company through the trading system of Shenzhen Stock Exchange. Zhongxingxin has been in compliance with its undertaking that it would not sell down its holdings of shares in the Company during the period of additional acquisition and the statutory period. For details, please refer to the "Announcement on the Acquisition of Additional Shares in the Company by the Controlling Shareholder" published by the Company in China Securities Journal, Securities Times, Shanghai Securities News and on http://www.cninfo.com.cn on 11 October 2008. During the reporting period, the implementation of the aforesaid additional share acquisition plan of controlling shareholder Zhongxingxin was in compliance with relevant provisions of the Securities Law and other relevant laws and regulations, departmental rules and the business rules of Shenzhen Stock Exchange.

## (VII) MATERIAL LITIGATION OR ARBITRATION OF THE GROUP INCURRED OR SUBSISTING DURING THE REPORTING PERIOD

During the reporting period, the Group did not incur any material litigation or arbitration. Progress during the year of other litigation and arbitration proceedings occurring prior to the reporting period were as follows:

1. In December 2005, a supplier of the Company alleged that the Company had breached the supply contract and infringed its intellectual property and claimed indemnity for a total amount of USD36.45 million (equivalent to approximately RMB249. 02 million) by instituting overseas arbitration.

   In April 2009, the Company received a formal notification from the arbitration court which ruled that the case be terminated and the compensation claim of the supplier be refuted, that the supplier should reimburse the Company for the cost incurred by the arbitration of the case (including the fee paid to the arbitration court by the Company).

2. In November 2005, Beijing Success Communications and Electronic Engineering Company Limited ("Beijing Success") instituted litigation against the Company's subsidiary Yangzhou Zhongxing Mobile Telecom Equipment Company Limited ("Yangzhou Zhongxing"), and the Company to demand an indemnity of RMB71 million, comprising the refund of an advanced payment of RMB35 million and compensation for interests and other losses amounting to RMB36 million.

   In December 2008, the Jiangsu Provincial High Court handed down its judgment for the first trial, which ruled that: (I) RMB35 million be refunded together with fund appropriation interests accrued on such amount to Beijing Success by Yangzhou Zhongxing; (II) Losses of Yangzhou Zhongxing amounting to over RMB11.66 million be indemnified by Beijing Success; (III) the Company be jointly responsible for the aforesaid liability of Yangzhou Zhongxing. The Company filed an appeal with the Supreme People's Court after receiving the first trial judgment. The case was heard at the Supreme People's Court in April 2009, but the court of second instance has yet to hand down any ruling or judgment. Currently the Company has not made any payments of compensation pursuant to the aforesaid judgment. Based on the legal opinion furnished by lawyers engaged by the Company, the Directors are of the opinion that the aforesaid litigation will not have any material adverse impact on the financial conditions of the Group for the current period.

Save as disclosed above, there was no substantial progress during the reporting period in respect of other litigation and arbitration proceedings disclosed in the 2008 Annual Report of the Company. The Company will make timely announcements in the event of any substantial progress of such matters.

**(VIII) DURING THE REPORTING PERIOD, THE COMPANY DID NOT HOLD ANY EQUITY INTERESTS IN OTHER LISTED COMPANIES, NOR DID IT MAKE ANY EQUITY INVESTMENTS IN FINANCIAL INSTITUTIONS SUCH AS COMMERCIAL BANKS, SECURITIES COMPANIES, INSURANCE COMPANIES, TRUST COMPANIES AND FUTURES COMPANIES OR CANDIDATES FOR PROPOSED LISTING.**

**(IX) THE GROUP WAS NOT ENGAGED IN ANY MATERIAL ACQUISITION, DISPOSAL OR BUSINESS MERGER COMMENCING OR SUBSISTING DURING THE REPORTING PERIOD.**

**(X) THE GROUP'S SIGNIFICANT CONNECTED TRANSACTIONS UNDER DOMESTIC LAWS AND REGULATIONS**

1. The Group did not conduct any purchases from or sales of goods or provide labour services to connected parties with amounts exceeding 5% of the latest audited net asset value during the reporting period. Please refer to Note VIII to the financial statements prepared under PRC ASBEs for details of connected transactions.

2. During the reporting period, ongoing connected transactions (as defined in the Rules Governing the Listing of Stocks on Shenzhen Stock Exchange) conducted by the Group included the purchase of raw materials from, sales of products to and lease of properties from connected parties by the Company and its subsidiaries. The prices at which the connected transactions were conducted had been reached by the parties through arm's length negotiations in accordance with normal commercial terms. The prices at which the Group made purchases from connected parties were not higher than the prices at which the connected parties sold similar products to other users in similar quantities. The prices at which properties were leased to the Group by connected parties were not higher than the market rates for the lease of similar properties in neighbouring areas. Moreover, such connected transactions did not have any adverse impact on the Group's profit. The Company was not dependent on the connected parties, and the connected transactions incurred did not affect the independence of the Company in any way.

   Details of the implementation of the Group's ongoing connected transactions during the reporting period are set out in the following table (For details of basic information of the connected parties, their connected relationships with the Group, basic information of the connected transaction agreements between the Group and the connected parties, estimated transaction amounts for 2009 under the agreements, impact of the connected transactions on the Group and review of the connected transaction agreements by general meeting or the Board of Directors of the Company, please refer to the "Announcement Regarding Connected Transactions" and the "Announcement Regarding Ongoing Connected Transactions 2009 (as defined in the Rules Governing the Listing of Stocks on Shenzhen Stock Exchange)" published by the Company in the China Securities Journal, Securities Times and Shanghai Securities News on 19 April 2007, 24 October 2008, 20 March 2009 and 24 April 2009 respectively.

| Classification | Member of the Group (party to connected transaction) | Connected person (counterparty to connected transaction) | Subject matter | Pricing basis | Transaction price | Amounts of connected transactions for January to June 2009 (Excluding VAT) (RMB10,000) | As a percentage of transactions in the same classification | Settlement | Whether different from estimated conditions |
|---|---|---|---|---|---|---|---|---|---|
| Purchase of raw materials | ZTE Kangxun Telecom Company, Limited | Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited and subsidiaries Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited, Shenzhen Zhongxing Xinyu FPC Company, Limited, Zhongxing Xinzhou Complete Equipment Company Limited | Various products such as cabinets, cases, distribution frames, soft circuit boards and shelters | Consistent with market prices (as per contract) | Cabinets: RMB1–RMB31,000 per unit; Cases: RMB1–RMB17,000 per unit depending on level of sophistication; Distribution frames: RMB2–RMB300,000 per unit depending on level of sophistication and functional features; Soft circuit boards: RMB2–RMB50 per unit depending on measurement, technical parameters and functional features; Shelter: RMB20,000–RMB100,000 per unit, depending on measurement, materials used and configuration. | 37,618.35 | 2.17% | Banker's acceptance bill | No |
| | | Mobi Antenna Technologies (Shenzhen) Company Limited | Various products such as communications antennas and radio frequency transmitter | Consistent with market prices (as per contract) | Communication antenna: RMB320–RMB2,500 per piece and radio frequency transmitter, RMB350–4,100 per unit, depending on technical parameters and functional features. | 17,727.30 | 1.02% | Banker's acceptance bill | No |
| Property leasing | ZTE Corporation and holding subsidiary Chengdu Zhongxing Software Company, Limited | Zhongxingxin (lessor) | Property located at No. 800 Tianfu Avenue Central, Chengdu, Sichuan with a leased area of 19,000 sq. m. | Consistent with market prices (as per contract) | Monthly rent of RMB40/ sq. m. (property management undertaken by ZTE and no management fees are payable) | 435.03 | 2.61% | Banker's acceptance bill | No |
| | ZTE Corporation | Zhongxingxin (lessor) | Property located at Jinye Road, Electronics City, Xi'an, Shaanxi with a leased area of 44,000 sq. m. | Consistent with market prices (as per contract) | Monthly rent of RMB42.5/sq. m. (inclusive of RMB2.5/sq. m. as monthly management fees) | 1,095.25 | 6.57% | Banker's acceptance bill | No |
| | | Shenzhen Zhongxing Development Company Limited (lessor) | Property located at 19 Huayuan East Road, Haidian District, Beijing with a leased area of 25,000 sq. m.; with effect from 18 April 2009, an additional area of 6,000 sq. m. was leased and the leased area was changed from 25,000 sq. m.; to 31,000 sq. m. | Consistent with market prices (as per contract) | Monthly rent of RMB115/sq. m. (property management undertaken by ZTE and no management fees are payable) | 1,732.39 | 10.39% | Banker's acceptance bill | No |
| | | Chongqing Zhongxing Development (lessor) | Property located at No.3 Xing Guang Wu Road, North New District, Chongqing with an intended leased area of 20,000 sq. m. | Consistent with market prices (as per contract) | Monthly rent of RMB30/ sq. m. (property management undertaken by the Company and no management fees are payable) | 227.13 | 1.36% | Banker's acceptance bill | No |

3. The Group did not enter into any connected transactions relating to any material acquisition or disposal of assets during the reporting period.

4. The debtor and creditor balances between the Group and connected parties during the reporting period represented balances arising from ordinary business transactions that did not have any material impact on the Group. There were no connected guarantees between the Group and its connected parties during the reporting period.

5. There was no misappropriation of the Company's funds by its controlling shareholder, its subsidiaries and other connected parties during the reporting period, and there were no connected transactions involving the provision of funds to any connected parties by the Company or to the Company by any connected parties.

## (XI) MATERIAL CONTRACTS OF THE GROUP AND THEIR PERFORMANCE

**1. There was no material transaction, trust, contract management or lease of assets of other companies by the Group or of the Group's assets by other companies commencing or subsisting during the reporting period.**

**2. External guarantees:**

***(1) External guarantees provided by the Group during the reporting period were as follows:***

| Third party guarantees provided by the Company (excluding guarantees for subsidiaries) | | | | | | |
|---|---|---|---|---|---|---|
| **Guaranteed party** | **Date of incurrence (date of execution of relevant agreements)** | **Amounts guaranteed** | **Type of guarantee** | **Term** | **Whether fully performed** | **Whether provided for connected parties (Yes/No)** |
| Djibouti Telecom S.A. | 8 September 2006 | RMB50 million | Joint liability | 12 years | No | No |
| United Telecoms Limited (Note 1) | 11 December 2006 | 73,923,700 Indian Rupee (approximately RMB10,477,900) | Assurance | 3 years | No | No |
| Benin Telecoms S.A. (Note 2) | 28 June 2007 | US$3 million | Assurance | 6.5 years | No | No |
| Total amount guaranteed during the reporting period | | | | | | — |
| Total balance of amount guaranteed at the end of the reporting period (A) | | | | | | RMB81,176,200 |
| **Guarantees provided for subsidiaries** | | | | | | |
| Total amount guaranteed for subsidiaries during the reporting period (Note 3) | | | | | | US$5 million |
| Total balance of amount guaranteed for subsidiaries at the end of the reporting period (B) | | | | | | US$66,405,500 |
| **Total amount guaranteed by the Company (including guarantees for subsidiaries)** | | | | | | |
| Total guaranteed amount (A+B) (Note 2) | | | | | | RMB514,356,200 |
| Total guaranteed amount as a percentage of net assets of the Company attributable to the parent at the end of the reporting period | | | | | | 3.48% |
| Of which: | | | | | | |
| Amounts of guarantees provided for shareholders, de facto controllers and their connected parties (C) | | | | | | — |
| Amount of debt guarantee provided directly or indirectly for parties with a gearing ratio exceeding 70% (D) (Note 4) | | | | | | US$16,405,500 |
| Amount of total guarantee exceeding 50% of net assets (E) | | | | | | — |
| Aggregated amount of the three guarantee amounts stated above (C+D+E) | | | | | | US$16,405,500 |
| Statement on potential joint liability involved in outstanding guarantees | | | | | | N/A |

Note 1: Guarantee for United Telecoms Limited of India provided by ZTE (H.K.) Limited, a wholly-owned subsidiary of the Company, in the form of a bank-issued irrevocable standby letter of credit.

Note 2: Guarantee provided by ZTE (H.K.) Limited, a wholly-owned subsidiary of the Company, in the form of a standby letter of credit backed by its bank credit facility, while the bank credit facility of ZTE (H.K.) Limited is guaranteed by the Company. The two aforesaid guarantees taken together, ZTE is the ultimate guarantor and Benin Telecoms is the ultimate party being guaranteed, for an amount of US$3 million. As the gearing ratio of Benin Telecoms was in excess of 70%, the aforesaid guarantee had been considered and approved by the Board of Directors and the general meeting of the Company in accordance with requirements of relevant laws and regulations.

Note 3: At the Twenty-fourth Meeting and Twenty-fifth Meeting of the Fourth Session of the Board of Directors, it was respectively considered and approved: that the Company would provide a guarantee by way of the pledge of its 51% equity interests in subsidiary Closed Joint-Stock Company CJSC TK Mobile ("CJSC TK Mobile") as a security against the bank loan extended to CJSC TK Mobile; and that the Company would provide a performance guarantee not exceeding US$40 million for its wholly-owned subsidiary PT. ZTE Indonesia ("ZTE Indonesia") and apply to the relevant bank for the issuance of a letter of performance guarantee providing guarantee with a maximum accumulated amount of US$5 million. As the respective gearing ratios of CJSC TK Mobile and ZTE Indonesia exceeded 70%, the said guarantees had been considered and approved by the First Extraordinary General Meeting of 2009 in accordance with requirements of relevant laws and regulations. As at the date of this report, the US$5 million guarantee provided by the Company for ZTE Indonesia by way of standby letter of credit drawn against its bank credit facilities has come into effect. The US$40 million performance guarantee provided for ZTE Indonesia and the guarantee by way of equity pledge provided as a security against the bank loan extended to CJSC TK Mobile have yet to come into effect, pending execution of relevant agreements.

Note 4: In addition to guarantees described in Note 2, the Company provided a guarantee in respect of a bank loan extended to subsidiary Congo-Chine Telecom S.A.R.L. by pledging its 51% equity interests in Congo-Chine Telecom S.A.R.L. As the gearing ratio of Congo-Chine exceeded 70%, the said guarantee had been considered and approved by the Board of Directors and the general meeting of the Company in accordance with requirements of relevant laws and regulations.

Note 5: Guaranteed amounts denominated in Indian Rupee are converted at the exchange rate of 1 Indian Rupee to RMB0.14174 (being the book exchange rate adopted by the Company on 30 June 2009); guaranteed amounts denominated in US dollars are converted at the exchange rate of US$1 to RMB6.83190 (being the book exchange rate adopted by the Company on 30 June 2009).

Note 6: All third party guarantees of the Company were submitted to the Board of Directors for its consideration and obtained the approval of two-thirds of the members of the Board of Directors. Such third party guarantees shall be tabled at the general meeting following approval by the Board of Directors, if the same is required in accordance with relevant provisions.

***(2) Progress of previously granted guarantees during the reporting period***

In January 2005, the Company performed its guarantee to make a repayment of RMB3.50 million on behalf of Chengdu Information Port Company Limited. As at the end of the reporting period, Juyou Industrial Group Limited, as counter-guarantor, had made a repayment of RMB1.85 million to the Company, and an amount of RMB1.65 million remained outstanding. The Group will continue to actively procure the settlement of the outstanding amount (Please refer to the 2005 annual report of the Group for details of the guarantee).

**3. A special statement and independent opinion on the Group's fund transfer between the Company and connected parties and external guarantees of the Company has been furnished by Independent Directors of the Company, Mr. Mi Zhengkun, Mr. Li Jin, Ms. Qu Xiaohui, Mr. Wei Wei and Mr. Chen Naiwei as follows:**

(1) The transfer of funds between the Company and the controlling shareholder and other connected parties represent sales and purchases of goods and property leasing in the ordinary course of business. Such transactions have been conducted on the basis of fair market prices and were not adverse to the Company's interests. Neither the controlling shareholder of the Company nor its subsidiaries nor other connected parties have appropriated the Company's funds.

(2) The Company has strictly complied with the approval procedures in relation to third party guarantees in accordance with the relevant provisions of the Articles of Association. Details of guarantees disclosed in the 2009 interim report are true and the Company has not committed any unlawful acts of guarantee or connected guarantees.

(3) The Independent Directors of the Company have reviewed the Company's transactions against the "Notice on Regulating External Guarantees made by Listed Companies" (Zheng Jian Fa [2005] No. 120) and the "Notice regarding Certain Issues in Financial Transactions Between Listed Companies and Connected Parties and External Guarantees made by Listed Companies" (Zheng Jian Fa [2003] No. 56) and are of the view that the Company has been in strict compliance with the relevant provisions under the Notice and are not aware of any breach of such notices.

**4. There was no entrusted management of the Group's cash assets of a material scale commencing or subsisting during the reporting period.**

**5. Material contracts disclosed during the reporting period and their performance:**

| No | Contents of material contracts | Date of Disclosure | Newspaper for publication | Performance |
|---|---|---|---|---|
| 1 | Framework agreement and business contracts thereunder with Ethiopian Telecommunications Corporation | 30 April 2007 | China Securities Journal Securities Times Shanghai Securities News | Under normal progress |
| 2 | GSM Phase II project contract with Ethiopian Telecommunications Corporation | 20 September 2007 | | Under normal progress |
| 3 | Wireless Net Project ZTE Equipment Purchase Contract under China Telecom Mobile Network Construction (Phase 1, 2008) with China Telecommunications Corporation | 18 November 2008 | | Completed |
| 4 | A series of contracts with respect to Business Net under China Telecom Mobile Network Construction (Phase 1, 2008) with China Telecommunications Corporation | 18 November 2008 | | Completed |
| 5 | Series of contracts in relation to the purchase of core network equipment under China Telecom Mobile Network Construction (Phase 1, 2008) and the purchase of Integrated Service Provision Platform (ISPP) equipment for China Telecom Mobile Network Construction (Phase 1, 2008) | 4 December 2008 | | Completed |

## (XII) RECEPTION OF INVESTORS AND ANALYSTS, COMMUNICATIONS AND PRESS INTERVIEWS OF THE COMPANY DURING THE REPORTING PERIOD

| Nature | Location | Date | Mode | Audience received | Contents of discussion | Materials furnished |
|---|---|---|---|---|---|---|
| Presentation of Company | Hong Kong | March 2009 | 2008 annual results presentation | Analysts and investors | 2008 annual report | Published announcements and regular reports |
| | Hong Kong | March 2009 | Teleconference | Analysts and investors | 2008 annual report | Published announcements and regular reports |
| | Shenzhen | March 2009 | Analysts' meeting | Analysts and investors | Day-to-day operations of the Company | Published announcements and regular reports |
| External meetings | Shanghai | January 2009 | UBS Greater China Forum | Customers of UBS | Day-to-day operations of the Company | Published announcements and regular reports |
| | Hong Kong | March 2009 | Credit Suisse Asia Investment Forum | Customers of Credit Suisse | Day-to-day operations of the Company | Published announcements and regular reports |
| | Xiamen | May 2009 | SYWG Investors Interviews | Analysts and investors | Day-to-day operations of the Company | Published announcements and regular reports |
| | Shenzhen | June 2009 | China Merchants Securities Interim Strategy Meeting | Analysts and investors | Day-to-day operations of the Company | Published announcements and regular reports |
| | Shenzhen | June 2009 | Ping An Securities Interim Strategy Meeting | Analysts and investors | Day-to-day operations of the Company | Published announcements and regular reports |
| Company visits by analysts | **Overseas investors** | | | | | |
| | Company | First half of 2009 | Verbal | Merrill Lynch Securities, Citibank, Blackship Capital Management, Greenwoods Asset Management, Daiwa Securities, Sumitomo Mitsui, Oppenheimer Fund, Henderson Global, Matthews International, BOCI, First Shanghai, Deutsche Bank, CLSA, Collins Stewart, KGI, BoCom-Schroders, Atlantis Investment, JP Morgan Asset Management, Mirae Asset Securities, Joho Capital, Samsung Investment, Kim Eng Securities | Day-to-day operations of the Company | Published announcements and regular reports |

| Nature | Location | Date | Mode | Audience received | Contents of discussion | Materials furnished |
|---|---|---|---|---|---|---|
| | **Domestic investors** | | | | | |
| | Company | First half of 2009 | Verbal | CICC, China Universal Asset Management, CCBI, China Merchants Securities, Donghai Securities, Guotai Junan, CITIC Securities, Changsheng Fund, Dacheng Fund, China AMC Fund, Yinhua Fund, Hong Yuan Securities, SouthChina Securities, Great Wall Fund, China Merchants Fund, Minsheng Royal Fund, Harvest Fund, SYWG, Changjiang Securities | Day-to-day operations of the Company | Published announcements and regular reports |

## (XIII) THERE WAS NO REPLACEMENT OR DISMISSAL OF ACCOUNTING FIRMS BY THE COMPANY DURING THE REPORTING PERIOD.

## (XIV) DURING THE REPORTING PERIOD, NONE OF THE COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT OR SHAREHOLDERS WAS SUBJECT TO INVESTIGATION BY COMPETENT AUTHORITIES, ENFORCEMENT BY JUDICIARY OR DISCIPLINARY AUTHORITIES, DETAINMENT BY JUDICIAL AUTHORITIES OR PROSECUTION FOR CRIMINAL CHARGES, EXAMINATION BY CSRC, ADMINISTRATIVE PENALTY BY CSRC, PROHIBITION FROM PARTICIPATION IN THE SECURITIES MARKET, PUBLIC CENSURE, OPINION OF DEEMED INAPPROPRIATENESS, PUNISHMENT BY OTHER ADMINISTRATIVE AUTHORITIES AND PUBLIC REPRIMAND BY THE SHENZHEN STOCK EXCHANGE

## (XV) UNDERTAKING

### 1. Undertaking by shareholders interested in more than 30% of the Company's shares in respect of additional share acquisition

On 10 October 2008, Zhongxingxin, the controlling shareholder of the Company, acquired additional A shares in the Company through the trading system of Shenzhen Stock Exchange. For details of the undertaking of Zhongxingxin in respect of its plan of additional acquisitions and its performance, please refer to the paragraph headed "(VI) Additional Share Acquisition Plan Proposed by Shareholders Interested in More than 30% of the Shares of the Company During the Period and the Implementation of the Plan" under this "Material Matters" section.

### 2. There were no other undertakings by the Company or shareholders interested in 5% or more of the shares in the Company.

## (XVI) INDEX OF INFORMATION DISCLOSURE OF THE COMPANY DURING THE REPORTING PERIOD

| Date | Newspaper | Page No. | Announcement |
|---|---|---|---|
| 17 January 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | A16<br>22<br>B6 | Announcement of Interest Payment in respect of the Bonds |
| 4 February 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | A16<br>C3<br>C8 | Announcement regarding the Nomination of Candidates for Independent Directors |
| 5 March 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | A12<br>C6<br>C8 | Announcement on Matters Relating to the Recognition of High-Tech Enterprises |
| 20 March 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | D027<br>C17<br>D17 | Announcement of resolutions passed at the 22nd meeting of the 4th session of the Board of the Directors |
| 20 March 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | D025<br>C17<br>D17 | 2008 annual report summary |
| 20 March 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | D027<br>C18<br>D20 | Announcement regarding ongoing connected transactions 2009 (as defined in the Rules Governing the Listing of Stocks on Shenzhen Stock Exchange) |
| 20 March 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | D028<br>C18<br>D20 | Notice of the 2008 annual general meeting |
| 20 March 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | D028<br>C19<br>D20 | Notice of the Class Meeting for Holders of Domestic Shares |
| 20 March 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | D028<br>C19<br>D20 | Announcement of resolutions passed at the 14th meeting of the 4th session of the Supervisory Committee |
| 21 March 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | C005<br>16<br>B20 | Announcement on the “Developmental Financial Cooperation Agreement” with National Development Bank” |
| 24 April 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | D023<br>C17<br>D32 | Announcement of resolutions passed at the 23rd meeting of the 4th session of the Board of the Directors |
| 24 April 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | D023<br>C17<br>D32 | First quarterly report 2009 |
| 24 April 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | D023<br>C17<br>D32 | Announcement on connected transactions |
| 24 April 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | D023<br>C17<br>D32 | Announcement of resolutions passed at the 15th meeting of the 4th session of the Supervisory Committee |

| Date | Newspaper | Page No. | Announcement |
|---|---|---|---|
| 30 April 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | D005<br>C169<br>D108 | Indicative announcement on the convening of the 2008 Annual General Meeting and the Class Meeting for Holders of Domestic Shares |
| 30 April 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | D005<br>C169<br>D108 | Clarification Announcement for the 2008 Annual General Meeting |
| 12 May 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | C12<br>C24<br>D4 | Announcement of resolutions passed at the 24th meeting of the 4th session of the Board of the Directors |
| 12 May 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | C12<br>C24<br>D4 | Announcement on the Provision of Guarantee for a Subsidiary |
| 12 May 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | C12<br>C24<br>D4 | Notice of the first extraordinary general meeting of 2009 |
| 20 May 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | D012<br>C6<br>B6 | Announcement in respect of resolutions of the 2008 annual general meeting |
| 20 May 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | D012<br>C6<br>B6 | Announcement in respect of resolutions of the Class Meeting for Holders of Domestic Shares |
| 20 May 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | D012<br>C6<br>B6 | Announcement in respect of resolutions of the Class Meeting for Holders of Overseas-listed Foreign Shares |
| 23 May 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | C009<br>31<br>B9 | Announcement on the Strategic Cooperation Agreement with China Exim Bank |
| 27 May 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | C12<br>C11<br>B8 | Announcement of profit distribution and capitalisation of capital reserves for 2008 |
| 5 June 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | D005<br>C19<br>D2 | Announcement on adjustments to the exercise price and ratio of 中興ZXC1 warrants |
| 6 June 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | C016<br>25<br>B3 | Announcement of resolutions passed at the 25th meeting of the 4th session of the Board of the Directors |
| 6 June 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | C016<br>25<br>B3 | Announcement on External Guarantees |
| 11 June 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | C12<br>C3<br>A4 | Supplementary Notice of ex Tempore Motions at the first extraordinary general meeting of 2009 |
| 11 June 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | C12<br>C3<br>A4 | Indicative announcement on the convening of 2009 first extraordinary general meeting |

| Date | Newspaper | Page No. | Announcement |
|---|---|---|---|
| 1 July 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | C12<br>C11<br>D2 | Announcement in respect of resolutions of the first extraordinary general meeting of 2009 |
| 7 July 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | A12<br>C16<br>D2 | Announcement of resolutions passed at the 26th meeting of the 4th session of the Board of the Directors |
| 7 July 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | A12<br>C16<br>D2 | Announcement of resolutions passed at the 16th meeting of the 4th session of the Supervisory Committee |
| 23 July 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | C08<br>C9<br>D3 | Announcement of the Completion of Release of Lock-up for Subject Shares under the First Unlocking of the Phase I Share Incentive Scheme |
| 23 July 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | C08<br>C9<br>D3 | Announcement of resolutions passed at the 27th meeting of the 4th session of the Board of the Directors |
| 23 July 2009 | China Securities Journal<br>Shanghai Securities News<br>Securities Times | C08<br>C9<br>D3 | Announcement of the Board of Directors |

Note: The above announcements were simultaneously published in domestic newspapers and on http://www.cninfo.com.cn.

# CONSOLIDATED BALANCE SHEET

(Prepared under PRC ASBEs)
Currency: RMB'000

| | Note VI | **30 June 2009 (unaudited)** | 31 December 2008 (audited) |
|---|---|---|---|
| **Assets** | | | |
| **Current assets:** | | | |
| Cash on hand and at bank | 1 | **12,428,251** | 11,480,406 |
| Bills receivable | 2 | **4,343,166** | 1,578,473 |
| Trade receivables | 3 | **13,324,235** | 9,972,495 |
| Factored trade receivables | 3 | **1,443,570** | 1,658,941 |
| Prepayments | 4 | **306,436** | 355,887 |
| Other receivables | 5 | **1,063,995** | 757,847 |
| Inventories | 6 | **11,394,005** | 8,978,036 |
| Amount due from customers for contract work | 7 | **8,871,805** | 7,894,010 |
| **Total current assets** | | **53,175,463** | 42,676,095 |
| **Non-current assets:** | | | |
| Available-for-sale financial assets | 8 | **252,310** | 251,148 |
| Long-term trade receivables | 9 | **556,645** | 612,008 |
| Factored long-term trade receivables | 9 | **1,027,550** | 753,568 |
| Long-term equity investments | 10 | **185,857** | 168,433 |
| Fixed assets | 11 | **4,336,639** | 4,103,076 |
| Construction in progress | 12 | **895,406** | 817,086 |
| Intangible assets | 13 | **541,896** | 589,084 |
| Development costs | 14 | **675,429** | 476,020 |
| Deferred tax assets | 15 | **412,287** | 400,265 |
| Long-term deferred assets | | **14,723** | 19,138 |
| **Total non-current assets** | | **8,898,742** | 8,189,826 |
| **TOTAL ASSETS** | | **62,074,205** | 50,865,921 |

The notes set out on pages 205 to 285 form an integral part of these financial statements.

# CONSOLIDATED BALANCE SHEET (continued)

(Prepared under PRC ASBEs)
Currency: RMB'000

| | Note VI | 30 June 2009 (unaudited) | 31 December 2008 (audited) |
|---|---|---|---|
| **Liabilities and shareholders' equity** | | | |
| **Current liabilities:** | | | |
| Short-term loans | 17 | **5,184,513** | 3,882,479 |
| Bank advances on factored trade receivables | | **1,443,570** | 1,658,941 |
| Derivative financial liabilities | | **—** | 12,560 |
| Bills payable | 19 | **9,519,953** | 6,318,059 |
| Trade payables | 20 | **12,794,723** | 9,495,946 |
| Amount due to customers for contract work | 7 | **3,582,481** | 2,965,582 |
| Advances from customers | 21 | **1,537,490** | 1,392,862 |
| Salary and welfare payables | 22 | **1,363,352** | 1,443,017 |
| Taxes payable | 23 | **(432,653)** | (765,040) |
| Dividend payable | 24 | **36,415** | 22,750 |
| Other payables | 26 | **1,555,405** | 1,553,011 |
| Deferred income | | **52,881** | 64,281 |
| Provision | 25 | **177,545** | 170,382 |
| Non-current loans due within one year | 27 | **1,576,624** | 1,782,006 |
| **Total current liabilities** | | **38,392,299** | 29,996,836 |
| **Non-current liabilities:** | | | |
| Long-term loans | 28 | **3,259,435** | 1,292,547 |
| Bank advances on factored long-term trade receivables | | **1,027,550** | 753,568 |
| Bonds payable | 29 | **3,557,463** | 3,514,652 |
| Specific payables | 31 | **80,000** | 80,000 |
| Deferred tax liabilities | 30 | **1,461** | 5,019 |
| Other non-current liabilities | 18 | **39,752** | 39,752 |
| **Total non-current liabilities** | | **7,965,661** | 5,685,538 |
| **Total liabilities** | | **46,357,960** | 35,682,374 |
| **Shareholders' equity:** | | | |
| Share capital | 32 | **1,746,329** | 1,343,330 |
| Capital reserves | 33 | **6,073,053** | 6,298,172 |
| Surplus reserves | 34 | **1,431,827** | 1,431,820 |
| Retained profits | 35 | **5,804,608** | 5,021,369 |
| Proposed final dividend | | **—** | 402,999 |
| Foreign currency translation differences | | **(294,517)** | (248,146) |
| Total equity attributable to equity holders of the parent | | **14,761,300** | 14,249,544 |
| Minority interests | 36 | **954,945** | 934,003 |
| **Total shareholders' equity** | | **15,716,245** | 15,183,547 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **62,074,205** | 50,865,921 |

The notes set out on pages 205 to 285 form an integral part of these financial statements.

The financial statements on pages 193 to 285 have been signed by:

| Legal representative of the Company: | Chief Financial Officer: | Head of Finance Division: |
|---|---|---|
| Hou Weigui | Wei Zaisheng | Shi Chunmao |

# CONSOLIDATED INCOME STATEMENT

(Prepared under PRC ASBEs)
Currency: RMB'000

| | | Note VI | **Six months ended 30 June 2009 (unaudited)** | Six months ended 30 June 2008 (unaudited) |
|---|---|---|---|---|
| **I.** | **Operating revenue** | 37 | **27,707,646** | 19,728,984 |
| | Less: Operating costs | 37 | **18,824,349** | 13,102,213 |
| | Taxes and surcharges | 38 | **300,045** | 149,116 |
| | Selling and distribution costs | | **3,177,139** | 2,616,839 |
| | Administrative expenses | | **1,367,727** | 1,130,733 |
| | Research and development costs | | **2,606,448** | 1,647,898 |
| | Finance expenses | 39 | **367,352** | 401,878 |
| | Impairment losses | 40 | **445,929** | 199,458 |
| | Add: Gains/(losses) from changes in fair values | 41 | **12,648** | (69,633) |
| | Investment income | 42 | **2,350** | 51,706 |
| | Including: Share of profits of Jointly controlled entities and associates | 42 | **10,460** | 9,874 |
| **II.** | **Operating profit** | | **633,655** | 462,922 |
| | Add: Non-operating income | 43 | **620,153** | 435,544 |
| | Less: Non-operating expenses | 43 | **42,612** | 29,824 |
| | Including: Loss and gains on disposal of non-current assets | | **6,598** | 3,459 |
| **III.** | **Total profit** | | **1,211,196** | 868,642 |
| | Less: Income tax | 44 | **342,457** | 199,216 |
| **IV.** | **Net profit** | | **868,739** | 669,426 |
| | Attributable to: | | | |
| | Equity holders of the parent | | **783,367** | 557,386 |
| | Minority interests | | **85,372** | 112,040 |
| **V.** | **Earnings per share** | | | |
| | (1) Basic earnings per share | 45 | **RMB0.45** | RMB0.32 |
| | (2) Diluted earnings per share | 45 | **RMB0.44** | RMB0.31 |
| **VI.** | **Other comprehensive income** | | **(46,371)** | (20,742) |
| **VII.** | **Comprehensive income** | | **822,368** | 648,684 |
| | Attributable to: | | | |
| | Equity holders of the parent | | **736,996** | 536,644 |
| | Minority interests | | **85,372** | 112,040 |

The notes set out on pages 205 to 285 form an integral part of these financial statements.

The financial statements on pages 193 to 285 have been signed by:

| Legal representative of the Company: | Chief Financial Officer: | Head of Finance Division: |
|---|---|---|
| Hou Weigui | Wei Zaisheng | Shi Chunmao |

* Earnings per share for the same period of 2008 has been restated to reflect the change in the Company's total issued share capital from 1,343,330,310 shares to 1,746,329,402 shares as a result of the implementation of the profit distribution for 2008.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared under PRC ASBEs)
Currency: RMB'000

| | Six months ended 30 June 2009 (unaudited) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Equity attributable to equity holders of the parent | | | | | | | | |
| | Share capital | Capital reserves | Surplus reserves | Retained profits | Proposed final dividend | Foreign currency translation differences | Sub-total | Minority interests | Total shareholders' equity |
| I. Opening balance of the current period | 1,343,330 | 6,298,172 | 1,431,820 | 5,021,369 | 402,999 | (248,146) | 14,249,544 | 934,003 | 15,183,547 |
| II. Changes in current period | | | | | | | | | |
| (1) Net profit | – | – | – | 783,367 | – | – | 783,367 | 85,372 | 868,739 |
| (2) Gains/(losses) recognised directly in equity | | | | | | | | | |
| 1. Net gains/(losses) from change in fair values of available-for-sale financial assets | – | – | – | – | – | – | – | – | – |
| 2. Effect of changes of other equity holders' interest in invested entities by equity method | – | – | – | – | – | – | – | – | – |
| 3. Related tax effect of items recognised in equity | – | – | – | – | – | – | – | – | – |
| 4. Others | – | – | – | – | – | (46,371) | (46,371) | (19,439) | (65,810) |
| Sub-total of (1) and (2) | – | – | – | 783,367 | – | (46,371) | 736,996 | 65,933 | 802,929 |
| (3) Capital injection from shareholders and reduction in capital | | | | | | | | | |
| 1. Capital injection from shareholders | – | – | – | – | – | – | – | 1,200 | 1,200 |
| 2. Equity settled share expense | – | 177,887 | – | – | – | – | 177,887 | – | 177,887 |
| 3. Issue of bonds cum warrants | – | – | – | – | – | – | – | – | – |
| 4. Others | – | (7) | (121) | – | – | – | (128) | (8,918) | (9,046) |
| (4) Profit appropriation | | | | | | | | | |
| 1. Appropriation to surplus reserves | – | – | 128 | (128) | – | – | – | – | – |
| 2. Distribution to shareholders | – | – | – | – | (402,999) | – | (402,999) | (37,273) | (440,272) |
| 3. Proposal final dividend | – | – | – | – | – | – | – | – | – |
| 4. Others | – | – | – | – | – | – | – | – | – |
| (5) Transfer of shareholders' equity | | | | | | | | | |
| 1. Transfer of capital reserve to share capital | 402,999 | (402,999) | – | – | – | – | – | – | – |
| 2. Transfer of surplus reserves to share capital | – | – | – | – | – | – | – | – | – |
| 3. Surplus reserves making up of losses | – | – | – | – | – | – | – | – | – |
| 4. Others | – | – | – | – | – | – | – | – | – |
| III. Closing balance of the current period | 1,746,329 | 6,073,053 | 1,431,827 | 5,804,608 | – | (294,517) | 14,761,300 | 954,945 | 15,716,245 |

The notes set out on pages 205 to 285 form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

(Prepared under PRC ASBEs)
Currency: RMB'000

| | Six months ended 30 June 2008 (unaudited) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Equity attributable to equity holders of the parent | | | | | | | | |
| | Share capital | Capital reserves | Surplus reserves | Retained profits | Proposed final dividend | Foreign currency translation differences | Sub-total | Minority interests | Total shareholders' equity |
| I. Opening balance of the current period | 959,522 | 5,807,332 | 1,364,758 | 3,831,231 | 239,880 | (65,562) | 12,137,161 | 751,247 | 12,888,408 |
| II. Changes in current period | | | | | | | | | |
| (1) Net profit | – | – | – | 557,386 | – | – | 557,386 | 112,040 | 669,426 |
| (2) Gains/(losses) recognised directly in equity | | | | | | | | | |
| 1. Net gains/(losses) from change in fair values of available-for-sale financial assets | – | – | – | – | – | – | – | – | – |
| 2. Effect of changes of other equity holders' interest in invested entities by equity method | – | – | – | – | – | – | – | – | – |
| 3. Related tax effect of items recognised in equity | – | – | – | – | – | – | – | – | – |
| 4. Others | – | – | – | – | – | (20,742) | (20,742) | – | (20,742) |
| Sub-total of (1) and (2) | – | – | – | 557,386 | – | (20,742) | 536,644 | 112,040 | 648,684 |
| (3) Capital injection from shareholders and reduction in capital | | | | | | | | | |
| 1. Capital injection from shareholders | – | – | – | – | – | – | – | 4,354 | 4,354 |
| 2. Equity settled share expense | – | 148,834 | – | – | – | – | 148,834 | – | 148,834 |
| 3. Issue of bonds cum warrants | – | 468,832 | – | – | – | – | 468,832 | – | 468,832 |
| 4. Others | – | – | – | – | – | – | – | – | – |
| (4) Profit appropriation | | | | | | | | | |
| 1. Appropriation to surplus reserves | – | – | 42,541 | (42,541) | – | – | – | – | – |
| 2. Distribution to shareholders | – | – | – | – | (239,880) | – | (239,880) | (48,574) | (288,454) |
| 3. Proposal final dividend | – | – | – | – | – | – | – | – | – |
| 4. Others | – | – | – | – | – | – | – | – | – |
| (5) Transfer of shareholders' equity | | | | | | | | | |
| 1. Transfer of capital reserve to share capital | – | – | – | – | – | – | – | – | – |
| 2. Transfer of surplus reserves to share capital | – | – | – | – | – | – | – | – | – |
| 3. Surplus reserves making up of losses | – | – | – | – | – | – | – | – | – |
| 4. Others | – | – | – | – | – | – | – | – | – |
| III. Closing balance of the current period | 959,522 | 6,424,998 | 1,407,299 | 4,346,076 | – | (86,304) | 13,051,591 | 819,067 | 13,870,658 |

The notes set out on pages 205 to 285 form an integral part of these financial statements.

The financial statements on pages 193 to 285 have been signed by:

| Legal representative of the Company: | Chief Financial Officer: | Head of Finance Division: |
|---|---|---|
| Hou Weigui | Wei Zaisheng | Shi Chunmao |

# CONSOLIDATED CASH FLOW STATEMENT

(Prepared under PRC ASBEs)
Currency: RMB'000

| | Note VI | Six months ended 30 June 2009 (unaudited) | Six months ended 30 June 2008 (unaudited) |
|---|---|---|---|
| **I. Cash flows from operating activities** | | | |
| Cash received from sale of goods or rendering services | | **22,127,889** | 16,396,543 |
| Cash received from taxes returned | | **1,695,724** | 1,386,756 |
| Cash received relating to other operating activities | 46 | **133,835** | 88,165 |
| **Sub-total of cash inflow** | | **23,957,448** | 17,871,464 |
| Cash paid for goods and services | | **15,814,789** | 14,324,030 |
| Cash paid to and on behalf of employees | | **4,243,320** | 3,282,379 |
| Payments of taxes and levies | | **1,494,958** | 909,679 |
| Cash paid relating to other operating activities | 46 | **3,579,584** | 2,506,581 |
| **Sub-total of cash outflow** | | **25,132,651** | 21,022,669 |
| **Net cash flows from operating activities** | 47 | **(1,175,203)** | (3,151,205) |
| **II. Cash flows from investing activities** | | | |
| Cash received from sale of investments | | **2,808** | — |
| Cash received from gains of investment | | **8,229** | 66,418 |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets | | **488** | 3,930 |
| **Sub-total of cash inflow** | | **11,525** | 70,348 |
| Cash paid to acquire fixed assets, intangible assets and other long-term assets | | **390,832** | 687,424 |
| Cash paid for investment | | **16,976** | 5,426 |
| **Sub-total of cash outflow** | | **407,808** | 692,850 |
| **Net cash flows from investing activities** | | **(396,283)** | (622,502) |
| **III. Cash flows from financing activities** | | | |
| Cash received from investment | | **33,956** | — |
| Cash received from borrowings | | **7,638,557** | 4,313,005 |
| Cash received from the issue of bonds cum warrants | | **—** | 3,961,443 |
| **Sub-total of cash inflow** | | **7,672,513** | 8,274,448 |
| Cash paid for debt repayments | | **4,575,017** | 3,007,235 |
| Cash payments for distribution of dividends and interest expenses | | **743,149** | 277,157 |
| **Sub-total of cash outflow** | | **5,318,166** | 3,284,392 |
| **Net cash flow from financing activities** | | **2,354,347** | 4,990,056 |
| **IV. Effect of changes in foreign exchange rate on cash** | | **(50,178)** | 52,783 |
| **V. Net increase in cash and cash equivalents** | | **732,683** | 1,269,132 |
| Add: cash and cash equivalents at beginning of period | | **11,344,160** | 6,309,749 |
| **VI. Closing balance of cash and cash equivalents** | 48 | **12,076,843** | 7,578,881 |

The notes set out on pages 205 to 285 form an integral part of these financial statements.

The financial statements on pages 193 to 285 have been signed by:

| Legal representative of the Company: | Chief Financial Officer: | Head of Finance Division: |
|---|---|---|
| Hou Weigui | Wei Zaisheng | Shi Chunmao |

* Restricted items have been excluded from the opening and closing balances of cash and cash equivalents.

# BALANCE SHEET OF THE COMPANY

(Prepared under PRC ASBEs)
Currency: RMB'000

| | Note VI | 30 June 2009 (unaudited) | 31 December 2008 (audited) |
|---|---|---|---|
| **Assets** | | | |
| **Current assets:** | | | |
| Cash on hand and at bank | | **7,459,671** | 8,331,272 |
| Bills receivable | | **4,228,373** | 1,513,358 |
| Trade receivables | 3 | **16,536,422** | 13,186,642 |
| Factored trade receivables | 3 | **1,344,597** | 1,783,941 |
| Prepayments | | **13,245** | 18,546 |
| Dividend receivable | | **29,620** | 23,848 |
| Other receivables | 5 | **1,855,195** | 1,442,177 |
| Inventories | | **6,126,063** | 5,211,017 |
| Amount due from customers for contract work | | **8,431,047** | 8,038,449 |
| **Total current assets** | | **46,024,233** | 39,549,250 |
| **Non-current assets:** | | | |
| Available-for-sale financial assets | 8 | **243,198** | 243,198 |
| Long-term trade receivables | 9 | **1,380,760** | 1,214,038 |
| Factored long-term trade receivables | | **1,152,550** | 753,568 |
| Long-term equity investments | 10 | **1,878,552** | 1,747,760 |
| Fixed assets | | **2,838,141** | 2,608,957 |
| Construction in progress | | **578,863** | 402,290 |
| Intangible assets | | **446,436** | 479,947 |
| Development costs | | **149,134** | 137,915 |
| Deferred tax assets | | **270,533** | 231,182 |
| **Total non-current assets** | | **8,938,167** | 7,818,855 |
| **TOTAL ASSETS** | | **54,962,400** | 47,368,105 |

The notes set out on pages 205 to 285 form an integral part of these financial statements.

# BALANCE SHEET OF THE COMPANY (continued)

(Prepared under PRC ASBEs)
Currency: RMB'000

| | Note VI | 30 June 2009 (unaudited) | 31 December 2008 (audited) |
|---|---|---|---|
| **Liabilities and shareholders' equity** | | | |
| **Current liabilities:** | | | |
| Short-term loans | | **3,244,613** | 1,273,828 |
| Bank advances on factored trade receivables | | **1,443,570** | 1,783,941 |
| Derivative financial liabilities | | **—** | 12,560 |
| Bills payable | | **9,924,334** | 6,901,568 |
| Trade payables | | **14,058,421** | 12,582,726 |
| Amount due to customers for contract work | | **2,405,138** | 2,408,455 |
| Advances from customers | | **919,210** | 1,640,192 |
| Salary and welfare payables | | **730,941** | 596,515 |
| Taxes payable | | **(528,888)** | (993,777) |
| Dividend payable | | **75** | 10 |
| Other payables | | **3,783,184** | 4,188,152 |
| Deferred income | | **27,060** | 31,263 |
| Provision | | **99,154** | 100,724 |
| Non-current loans due within one year | | **478,233** | 673,384 |
| **Total current liabilities** | | **36,585,045** | 31,199,541 |
| **Non-current liabilities:** | | | |
| Long-term loans | | **2,923,104** | 1,005,039 |
| Bank advances on factored long-term trade receivables | | **1,152,550** | 753,568 |
| Bonds payable | | **3,557,463** | 3,514,652 |
| Specific payables | | **80,000** | 80,000 |
| Deferred tax liabilities | | **7,242** | 7,242 |
| Other non-current liabilities | | **39,752** | 39,752 |
| **Total non-current liabilities** | | **7,760,111** | 5,400,253 |
| **Total liabilities** | | **44,345,156** | 36,599,794 |
| **Shareholders' equity:** | | | |
| Share capital | | **1,746,329** | 1,343,330 |
| Capital reserves | | **6,046,018** | 6,271,137 |
| Surplus reserves | | **769,482** | 769,603 |
| Retained profits | | **2,067,479** | 1,992,735 |
| Proposed final dividend | | **—** | 402,999 |
| Foreign currency translation differences | | **(12,064)** | (11,493) |
| **Total shareholders' equity** | | **10,617,244** | 10,768,311 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **54,962,400** | 47,368,105 |

The notes set out on pages 205 to 285 form an integral part of these financial statements.

The financial statements on pages 193 to 285 have been signed by:

| Legal representative of the Company: | Chief Financial Officer: | Head of Finance Division: |
|---|---|---|
| Hou Weigui | Wei Zaisheng | Shi Chunmao |

# INCOME STATEMENT OF THE COMPANY

(Prepared under PRC ASBEs)
Currency: RMB'000

| | | Note VI | Six months ended 30 June 2009 (unaudited) | Six months ended 30 June 2008 (unaudited) |
|---|---|---|---|---|
| I. | **Operating revenue** | 37 | **25,877,672** | 17,288,907 |
| | Less: Operating costs | 37 | **21,049,253** | 14,795,021 |
| | Taxes and surcharges | | **56,821** | 21,786 |
| | Selling and distribution costs | | **2,532,147** | 1,928,474 |
| | Administrative expenses | | **813,699** | 618,361 |
| | Research and development costs | | **655,795** | 352,214 |
| | Finance expenses | | **393,012** | 565,193 |
| | Impairment losses | | **307,927** | 109,702 |
| | Add: Gains/(losses) from changes in fair values | | **12,559** | (77,508) |
| | Investment income | 42 | **50,583** | 1,224,353 |
| | Including: Share of profits of Jointly controlled entities and associates | | **6,952** | 2,652 |
| II. | **Operating profit** | | **132,160** | 45,001 |
| | Add: Non-operating income | | **71,882** | 42,135 |
| | Less: Non-operating expenses | | **10,242** | 19,915 |
| | Including: Loss and gains on disposal of non-current assets | | **–** | 2,152 |
| III. | **Total profit** | | **193,800** | 67,221 |
| | Less: Income tax | | **119,056** | 39,845 |
| IV. | **Net profit** | | **74,744** | 27,376 |
| V. | **Earnings per share** | | | |
| | (1) Basic earnings per share | | **RMB0.04** | RMB0.02 |
| | (2) Diluted earnings per share | | **RMB0.04** | RMB0.01 |
| VI. | **Other comprehensive income** | | **(571)** | (4,462) |
| VII. | **Comprehensive income** | | **74,173** | 22,914 |

The notes set out on pages 205 to 285 form an integral part of these financial statements.

The financial statements on pages 193 to 285 have been signed by:

| Legal representative of the Company: | Chief Financial Officer: | Head of Finance Division: |
|---|---|---|
| Hou Weigui | Wei Zaisheng | Shi Chunmao |

* Earnings per share for the same period of 2008 has been restated to reflect the change in the Company's total issued share capital from 1,343,330,310 shares to 1,746,329,402 shares as a result of the implementation of the profit distribution for 2008.

# STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

(Prepared under PRC ASBEs)
Currency: RMB'000

| | Six months ended 30 June 2009 (unaudited) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital | Capital reserves | Surplus reserves | Retained profits | Proposed final dividend | Foreign currency translation differences | Total shareholders' equity |
| I. Opening balance of the current period | 1,343,330 | 6,271,137 | 769,603 | 1,992,735 | 402,999 | (11,493) | 10,768,311 |
| II. Changes in current period | | | | | | | |
| (1) Net profit | – | – | – | 74,744 | – | – | 74,744 |
| (2) Gains/(losses) recognised directly in equity | | | | | | | |
| 1. Net gains/(losses) from change in fair values of available-for-sale financial assets | – | – | – | – | – | – | – |
| 2. Effect of changes of other equity holders' interest in invested entities by equity method | – | – | – | – | – | – | – |
| 3. Related tax effect of items recognised in equity | – | – | – | – | – | – | – |
| 4. Others | – | – | – | – | – | (571) | (571) |
| Sub-total of (1) and (2) | – | – | – | 74,744 | – | (571) | 74,173 |
| (3) Capital injection from shareholders and reduction in capital | | | | | | | |
| 1. Capital injection from shareholders | – | – | – | – | – | – | – |
| 2. Equity settled share expense | – | 177,887 | – | – | – | – | 177,887 |
| 3. Issue of bonds cum warrants | – | – | – | – | – | – | – |
| 4. Others | – | (7) | (121) | – | – | – | (128) |
| (4) Profit appropriation | | | | | | | |
| 1. Appropriation to surplus reserves | – | – | – | – | – | – | – |
| 2. Distribution to shareholders | – | – | – | – | (402,999) | – | (402,999) |
| 3. Proposal final dividend | – | – | – | – | – | – | – |
| 4. Others | – | – | – | – | – | – | – |
| (5) Transfer of shareholders' equity | | | | | | | |
| 1. Transfer of capital reserve to share capital | 402,999 | (402,999) | – | – | – | – | – |
| 2. Transfer of surplus reserves to share capital | – | – | – | – | – | – | – |
| 3. Surplus reserves making up of losses | – | – | – | – | – | – | – |
| 4. Others | – | – | – | – | – | – | – |
| III. Closing balance of the current period | 1,746,329 | 6,046,018 | 769,482 | 2,067,479 | – | (12,064) | 10,617,244 |

The notes set out on pages 205 to 285 form an integral part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY OF THE COMPANY (continued)

(Prepared under PRC ASBEs)
Currency: RMB'000

| | Six months ended 30 June 2008 (unaudited) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital | Capital reserves | Surplus reserves | Retained profits | Proposed final dividend | Foreign currency translation differences | Total shareholders' equity |
| I. Opening balance of the current period | 959,522 | 5,772,061 | 769,603 | 1,417,872 | 239,880 | (3,651) | 9,155,287 |
| II. Changes in current period | | | | | | | |
| (1) Net profit | – | – | – | 27,376 | – | – | 27,376 |
| (2) Gains/(losses) recognised directly in equity | | | | | | | |
| 1. Net gains/(losses) from change in fair values of available-for-sale financial assets | – | – | – | – | – | – | – |
| 2. Effect of changes of other equity holders' interest in invested entities by equity method | – | – | – | – | – | – | – |
| 3. Related tax effect of items recognised in equity | – | – | – | – | – | – | – |
| 4. Others | – | – | – | – | – | (4,462) | (4,462) |
| Sub-total of (1) and (2) | – | – | – | 27,376 | – | (4,462) | 22,914 |
| (3) Capital injection from shareholders and reduction in capital | | | | | | | |
| 1. Capital injection from shareholders | – | – | – | – | – | – | – |
| 2. Equity settled share expense | – | 148,834 | – | – | – | – | 148,834 |
| 3. Issue of bonds cum warrants | – | 468,832 | – | – | – | – | 468,832 |
| 4. Others | – | – | – | – | – | – | – |
| (4) Profit appropriation | | | | | | | |
| 1. Appropriation to surplus reserves | – | – | – | – | – | – | – |
| 2. Distribution to shareholders | – | – | – | – | (239,880) | – | (239,880) |
| 3. Proposal final dividend | – | – | – | – | – | – | – |
| 4. Others | – | – | – | – | – | – | – |
| (5) Transfer of shareholders' equity | | | | | | | |
| 1. Transfer of capital reserve to share capital | – | – | – | – | – | – | – |
| 2. Transfer of surplus reserves to share capital | – | – | – | – | – | – | – |
| 3. Surplus reserves making up of losses | – | – | – | – | – | – | – |
| 4. Others | – | – | – | – | – | – | – |
| III. Closing balance of the current period | 959,522 | 6,389,727 | 769,603 | 1,445,248 | – | (8,113) | 9,555,987 |

The notes set out on pages 205 to 285 form an integral part of these financial statements.

The financial statements on pages 193 to 285 have been signed by:

| Legal representative of the Company: | Chief Financial Officer: | Head of Finance Division: |
|---|---|---|
| Hou Weigui | Wei Zaisheng | Shi Chunmao |

# CASH FLOW STATEMENT OF THE COMPANY

(Prepared under PRC ASBEs)
Currency: RMB'000

| | | Six months ended 30 June 2009 (unaudited) | Six months ended 30 June 2008 (unaudited) |
|---|---|---|---|
| **I.** | **Cash flows from operating activities** | | |
| | Cash received from sale of goods or rendering services | **20,925,787** | 14,435,600 |
| | Cash received from taxes returned | **1,142,593** | 956,566 |
| | Cash received relating to other operating activities | **93,915** | 60,571 |
| | **Sub-total of cash inflow** | **22,162,295** | 15,452,737 |
| | Cash paid for goods and services | **21,010,570** | 15,694,416 |
| | Cash paid to and on behalf of employees | **1,110,119** | 997,689 |
| | Payments of taxes and levies | **95,665** | 94,069 |
| | Cash paid relating to other operating activities | **3,424,254** | 1,492,251 |
| | **Sub-total of cash outflow** | **25,640,608** | 18,278,425 |
| | **Net cash flows from operating activities** | **(3,478,313)** | (2,825,688) |
| **II.** | **Cash flows from investing activities** | | |
| | Cash received from sale of investments | **—** | — |
| | Cash received from gains of investment | **48,067** | 50,641 |
| | Net cash received from disposal of fixed assets, intangible assets and other long-term assets | **—** | — |
| | **Sub-total of cash inflow** | **48,067** | 50,641 |
| | Cash paid to acquire fixed assets, intangible assets and other long-term assets | **311,199** | 616,417 |
| | Cash paid for investment | **134,176** | — |
| | **Sub-total of cash outflow** | **445,375** | 616,417 |
| | **Net cash flow from investing activities** | **(397,308)** | (565,776) |
| **III.** | **Cash flows from financing activities** | | |
| | Cash received from investment | **33,456** | — |
| | Cash received from borrowings | **5,398,483** | 3,348,161 |
| | Cash received from the issue of bonds cum warrants | **—** | 3,961,443 |
| | **Sub-total of cash inflow** | **5,431,939** | 7,309,604 |
| | Cash paid for debt repayments | **1,704,784** | 2,833,018 |
| | Cash payments for distribution of dividends and interest expenses | **685,089** | 222,170 |
| | **Sub-total of cash outflow** | **2,389,873** | 3,055,188 |
| | **Net cash flow from financing activities** | **3,042,066** | 4,254,416 |
| **IV.** | **Effect of changes in foreign exchange rate on cash** | **(63,458)** | 87,918 |
| **V.** | **Net increase in cash and cash equivalents** | **(897,013)** | 950,870 |
| | Add: cash and cash equivalents at beginning of period | **8,323,750** | 4,604,365 |
| **VI.** | **Closing balance of cash and cash equivalents** | **7,426,737** | 5,555,235 |

The notes set out on pages 205 to 285 form an integral part of these financial statements.

The financial statements on pages 193 to 285 have been signed by:

| Legal representative of the Company: | Chief Financial Officer: | Head of Finance Division: |
|---|---|---|
| Hou Weigui | Wei Zaisheng | Shi Chunmao |

* Restricted items have been excluded from the opening and closing balances of cash and cash equivalents.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## I. CORPORATE BACKGROUND

ZTE Corporation ("The Company") was a joint-stock limited company jointly founded by Shenzhen Zhongxingxin Telecommunications Equipment Company Limited, China Precision Machinery Import & Export Shenzhen Company, Lishan Microelectronics Corporation, Shenzhen Zhaoke Investment Development Co., Limited, Hunan Nantian (Group) Company Limited, Jilin Posts and Telecommunications Equipment Company and Hebei Telecommunications Equipment Company Limited and incorporated in People's Republic of China through a public offering of shares to the general public. As approved under Document Zheng Jian Fa Zi (1997) No. 452 and Document Zheng Jian Fa Zi No. 453 issued by China Securities Regulatory Commission, on 6 October 1997, the Company issued ordinary shares to the general public within the network through the Shenzhen Stock Exchange and the shares were listed and traded on the Shenzhen Stock Exchange on 18 November 1997.

In 2003, Shenzhen Zhaoke Investment Development Co., Limited transferred its entire shareholdings in the company to Shenzhen Gaotejia Venture Investment Co., Limited. The time of the share transfer was already more than three years from the date of establishment of the company and was therefore in compliance with the applicable provision under the Company Law. In December 2003, Shenzhen Gaotejia Venture Investment Co., Limited transferred its entire shareholdings in the Company to Fortune Trust & Investment Company Limited. Fortune Trust & Investment Company Limited transferred its entire shareholdings in the Company to in Jade Dragon (Mauritius) Company Limited in November 2005. On 29 December 2006, shares held by Jade Dragon (Mauritius) Company Limited were released from lock-up.

On 11 November 1997, the Company was registered and established upon approval by Guangdong Shenzhen Industrial and Commercial Administrative Bureau with registration no. of 4403011015176 (renewed), and was issued a Corporate Business License (license no.: Shen Si Zi N35868). The Company and its subsidiaries (collectively the "Group") mainly engaged in production of remote control switch systems, multimedia communications systems and communications transmission systems; provision of technical design, development, consultation and related services for the research and manufacture and production of mobile communications systems equipment, satellite communications, microwave communications equipment, beepers, computer hardware and software, closed-circuit TVs, microwave communications, automated signal control, computer information processing, process monitoring systems, fire alarm systems; provision of technical design, development, consultation and related services for wireline and wireless communications projects of railways, mass transit railways, urban rail transit, highways, plants and mines, ports and terminals and airports (excluding restricted projects); purchase and sale of electronics devices, micro-electronics components (excluding franchised, state-controlled and monopolised merchandises); sub-contracting of communications and related projects outside the PRC and global tendering projects within the PRC, as well as import and export of the equipment and materials required by the aforesaid projects outside the PRC and sending labors and workers for carrying out the aforesaid projects outside the PRC; technical development and sale of electronics systems equipment (excluding restricted items and franchised, state controlled and monopolised merchandises); operations of import and export businesses (implemented in accordance with the provision under the certificate of qualifications approved and issued by Shenzhen Bureau of Trade and Development); specialised sub-contracting of telecommunications projects.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## I. CORPORATE BACKGROUND (continued)

On 9 December 2004, pursuant to a resolution adopted at the Company's second temporary shareholders' general meeting and the provision under the revised Articles of Association, and upon approval under Document Guo Zi Gai Ge [2004] No. 865 issued by State-owned Assets Supervision and Administration Commission of the State council and verification and approval under Document Zheng Jian Guo He Zi [2004] No. 38 issued by China Securities Regulatory Commission, the Company made an overseas public offering of 160,151,040 overseas listed foreign invested shares (H Shares), of which 158,766,450 new shares were issued by the Company and 1,384,590 shares were sold by the Company's state-owned corporate shareholders.

On 28 December 2005, the share reform plan of the Company was formally implemented and completed. On the first trading day subsequent to the implementation of the share reform plan, all original non-tradable shares held by non-tradable shareholders of the Company obtained the right of listing and circulation.

Pursuant to a resolution of the 2008 annual general meeting of the Company, capitalisation of the Company's reserve was implemented in 2009 by way of creating 3 shares for every 10 shares held or a total of 402,999,092 shares on the basis of the Company's shares capital of 1,343,330,310 shares as at 31 December 2008. As at 30 June 2009, the total accumulated share capital in issue of the Company was 1,746,329,402 shares. Please see Note VI.32 for details.

## II. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the "Accounting Standards for Business Enterprises (including basic principles, specific standards, practice notes and other relevant regulations) promulgated by the Ministry of Finance in February 2006.

The Company was listed on the Hong Kong Stock Exchange on 9 December 2004. It also publishes its financial report in accordance with the Hong Kong Financial Reporting Standards.

The financial statements are in compliance with the requirements of the Accounting Standards for Business Enterprises and give a true and complete view of the financial position as at 30 June 2009 and the operating results and cash flow for the first six months of 2009 of the Company and the Group.

The financial statements are prepared on a going concern basis.

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The financial information set out in the interim financial statements for 2009 was prepared in accordance with the following principal accounting policies and accounting estimates which were proposed in accordance with the Accounting Standards for Business Enterprises.

### 1. Financial year

The financial year of the Group was from 1 January to 31 December of each calendar year.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

### 2. Reporting currency

Reporting currency and the currency used in preparing the financial statements were Renminbi. The amounts in the financial statements were denominated in Renminbi, unless otherwise stated.

The Group's subsidiaries, jointly-controlled entities and associates determine their reporting currency according to the major economic environment in which they operate the business, and translate into Renminbi when preparing the financial statements.

### 3. Basis of accounting and measurement basis

The Group's accounts have been prepared on an accrual basis. All items are recorded by using historical cost as the basis of measurement except for some financial instruments. Impairment provision is proposed according to relevant regulation if the assets are impaired.

### 4. Business combination

Business combination represents transaction which combines two or more separate businesses into one reporting entity. Business combinations are classified into business combinations involving entities under common control and business combinations involving entities not under common control.

*Business combinations involving entities under common control*

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The absorbing party is the entity that obtains control of the other entities participating in the combination at the combination date, and the other entities participating in the combination are the parties being absorbed. The combination date is the date on which the absorbing party effectively obtains control of the parties being absorbed.

Assets and liabilities obtained by absorbing party in the business combination are recognised at their carrying amounts at the combination date as recorded by the party being absorbed. The difference between the carrying amount of the consideration paid for the combination (or aggregate face values of the shares issued) and the carrying amount of the net assets obtained is adjusted to capital reserves. If the capital reserves is not sufficient to absorb the difference, any excess is adjusted to retained earnings.

Any costs directly attributable to the combination are recognised as expenses when incurred by the absorbing party.

*Business combinations involving entities not under common control*

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. The acquirer is the entity that obtains control of the other entities participating in the combination at the acquisition date, and the other entities participating in the combination are the acquirees. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

### 4. Business combination (continued)

*Business combinations involving entities not under common control (continued)*

The cost of acquisition is measured as the aggregate of the fair values of the assets given, liabilities incurred or assumed, equity instruments issued by the acquirer at the acquisition date, and all the costs incurred directly attributable to the acquisition, in exchange for control of the acquiree. The cost of a business combination conducted through multiple exchanges and swaps shall be the sum of the costs of each transaction. Where agreements on future events that might affect the combination cost are made in a combination contract, the cost of such future events is also included in the combination cost to the extent that such events are likely to occur and the amount of impact on the combination cost could be reliably measured based on estimates made as at the acquisition date.

The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date.

Where the cost of a business combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill. Where the cost of a business combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer reassesses the measurement of the fair values of the acquiree's identifiable net assets, liabilities and contingent liabilities and the measurement of the cost of combinations. If after that reassessment, the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the remaining difference is recognised in the profit or loss for the current period.

### 5. Consolidated financial statements

The consolidation scope for consolidated financial statement is determined based on concept of control, including the Company and all subsidiaries' financial statements as at 30 June 2009. Subsidiaries are those enterprises or entities which the Company has control over.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All profit and loss and unrealised profit and loss arising from inter-company transactions, and inter-company balances are eliminated on consolidation.

The consolidated portion of shareholders' equity of the subsidiaries not held by the Group is presented separately as minority interests in the consolidated financial statements.

For subsidiaries obtained through a business combination not involving entities under common control, the operating results and cash flow of the acquiree will be recognised in consolidated financial statements from the date the Group effectively obtains the control until the date that control is terminated. When consolidated financial statement is prepared, the subsidiaries' financial statements will be adjusted based on the fair values of the identifiable assets, liabilities and contingent liabilities at the acquisition date.

For subsidiaries obtained through a business combination involving entities under common control, the operating result and cash flow of the party being absorbed will be recognised in consolidated financial statement from the beginning of the period during which the combination occurs. In preparing the comparative consolidated financial statements, adjustments were made to relevant items in financial statements in previous periods as if the reporting entity formed after the consolidation had been in existence since the ultimate controlling party started to exercise effective control.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

### 6. Cash equivalents

Cash equivalents represented short-term highly liquid investments which are readily convertible to known amounts of cash, and subject to an insignificant risk of changes in value.

### 7. Foreign currency translation

For foreign currency transactions, the Group translates the foreign currency into its functional currency.

Upon initial recognition, foreign currency transactions are translated into the functional currency using the median exchange rate published by the People's Bank of China at the beginning of the month in which the transactions occur. At the balance sheet date, foreign currency monetary items are translated using the spot exchange rate at the balance sheet date. The exchange differences arising from the above translation, except the ones relating to foreign currency borrowings for the acquisition, construction or production of assets eligible for the capitalisation shall be dealt with according to the principle of borrowing cost capitalisation, are recognised in profit or loss. Also at the balance sheet date, foreign currency non-monetary items measured at historical cost continue to be translated using the spot exchange rate at the dates of the transactions and it does not change its carrying amount in functional currency. Foreign currency non-monetary items measured at fair value are translated using the spot exchange rate prevailing on the valuation date. The exchange differences arising from the above translation are recognised as expenses or capital reserves.

The Group translates the functional currencies of foreign operations into Renminbi when preparing the financial statements. Asset and liability items in the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date. Shareholders' equity items, except for retained earnings, are translated at the spot exchange rates at the date when such items arose. Income and expense items in the income statement are translated using the average exchange rate for the period when transactions occur. Translation differences arising from the above translation are presented as a separate line item under shareholders' equity in the balance sheet. When foreign operations are involved in the consolidated financial statements, foreign exchange differences arising from exchange rate movements are recognised as "foreign currency translation differences" in shareholders' equity if foreign currency items exist to effectively constitute net investments in foreign operations. When a foreign operation is disposed of, the translation differences relating to translation of the financial statements of that foreign operation are transferred to profit or loss in the period in which the disposal occurs, and partial disposal is calculated based on disposal ratio.

Cash flows denominated in foreign currencies and foreign subsidiaries' cash flows are translated using the average exchange rate for the period when cash flows occur. The impact on cash caused by the fluctuation of exchange rates is presented as a separate line of reconciliation item in the cash flow statement.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

### 8. Inventories

Inventories include raw materials, materials sub-contracted for processing, work-in-progress and finished goods. Inventories are finished goods held for sale in the ordinary course of business, or work in progress in the process of production, or materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are initially recorded at actual costs. Inventories' costs include purchasing costs, processing costs and other costs. Actual costs of goods delivered are recognised using the weighted moving average method.

Inventories are valued using the perpetual inventories system.

Inventories at the end of the year are stated at the lower of cost or net realisable value. Provision for impairment of inventories is made and recognised as expenses when the net realisable value is lower than cost. If the factors that give rise to the provision in prior years are not in effect in current year, and as a result of that the net realisable value of the inventories is higher than cost, provision would be reversed within the impaired cost, and recognised in profit or loss.

Net realisable values represent estimated selling prices less any estimated costs to be incurred to completion, estimated selling expenses and relevant tax amounts. Provision for impairment of inventories is made on the basis of individual categories.

### 9. Construction contract works

The amount of construction contract works represent costs incurred to date and recognised gross profit or loss less progress billings and anticipated contract losses. Contract costs incurred comprise direct materials, direct labor, construction machinery costs, other direct costs and an appropriate proportion of construction overheads. For an individual contract, the amount of contract costs incurred for to date plus recognised gross profit or loss in excess of progress billings is recognised as assets; whereas the amount of progress billings in excess of contract costs incurred to date plus recognised gross profit or loss is recognised as liabilities.

The proportion of construction contract work completion represent the contract costs incurred to date as a percentage of estimated total contract costs. When construction contract work can be estimated reliably, the contract revenue and cost would be recognised by relevant percentage of completion.

Provision for anticipated contract losses is made and recognised in profit and loss in respect of contracts for which the amount of estimated total contract costs exceeded estimated total contract revenue to the extent of the difference between the amount of estimated total contract costs in excess of estimated total contract revenue and recognised losses.

Upon the realisation of anticipated contract losses of contracts for which estimated losses had been provided for, the estimated contract losses provided for would be written back and the actual amount of loss would be recognised.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

### 10. Long-term equity investments

Long-term equity investments include equity investments in subsidiaries, joint ventures and associates, as well as equity investments in investees over which the Company does not exercise control, common control or significant influence which are not quoted in an active market and the fair value of which cannot be reliably measured. Long term equity investments were recorded at initial investment cost on acquisition.

The cost method is used when the Group does not jointly control or has significant influence over the investee, and the long term equity investments are not quoted in active markets, and have no reliably measurable fair values. In the financial statements of the Company, the cost method is used for long term equity investments in investees over which the Company exercises control.

When the cost method is used, long-term equity investments are measured at initial cost on acquisition. Profit distributions or cash dividends declared by the invested enterprise are recognised as investment income for the current period. The amount of investment income recognised is limited to the amount distributed out of accumulated net profit of the invested enterprise that arises after the investment was made. The amount of profit distributions or cash dividends declared by the invested enterprise in excess of the above threshold is treated as a recovery of initial investment cost.

The equity method is used to account for long-term equity investments when the Company can jointly control or has significant influence over the invested entity. Common control means shared control over certain economic activities pursuant to contractual agreements and exists only if significant financial and operational decisions relating to such economic activities require unanimous approval of investing parties sharing such control. Significant control means having the authority to take part in the decision over the financial and operational policies but not the authority to control or jointly control with other parties the formulation of such policies.

Under the equity method, any excess of the initial investment cost over the Company's share of the net fair value of the investment's identifiable assets and liabilities is included in the initial investment cost of the long-term equity investment. Any excess of the Company's share of the investment's identifiable assets and liabilities over the cost of investment is excluded from the carrying amount of the investment and recognised in profit and loss for the current period.

Under the equity method, after the long-term equity investments are acquired, investment gains or losses are recognised and the carrying amount of the long-term equity investment is adjusted to reflect the Company's share of the investee's net profit or loss. When recognising the Company's share of the net profit or loss of the invested entity, the Group makes adjustments to investee's net profits based on fair values of the investees' identifiable assets and liabilities at the acquisition date in accordance with the Group's accounting policy and accounting period, eliminating profit or loss from inter-transactions with associates and joint ventures attributed to investor which is calculated pro rata on the basis of share percentage (for loss from inter-transactions belonging to impairment loss, it shall be recognised in full). When the invested enterprise declares profit appropriations or cash dividends, the carrying amount of investment is adjusted down by the Company's share of the profit appropriations and dividends. The Company shall discontinue recognising its share of the losses of the investee after the long-term equity investment together with any long-term interests that in substance forms part of the Company's net investment in the investee are reduced to zero, except to the extent that the Company has incurred obligations to assume additional losses. The Company also adjusts the carrying amount of long-term equity investments for other changes in owner's equity of the investees (other than net profits or losses), and includes the corresponding adjustment in equity. Upon the disposal of such investment, it will be transferred to profit and loss for the current period on a proportionate basis.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

### 10. Long-term equity investments (continued)

On disposal of the long-term equity investments, the difference between book value and market price is recognised in profit or loss for the current period. Long-term equity investments accounted for under the equity method and recognised in the shareholders' equity shall be transferred to profit and loss for the current period on a proportionate basis upon disposal.

### 11. Fixed assets

Fixed assets are tangible assets held for production of goods, service provision, rental or administrative purposes that are used for more than one accounting year.

A fixed asset is recognised when, and only when, it is probable that future economic benefits that are associated with the fixed asset will flow to the Group and the cost can be measured reliably. Subsequent expenditures related to a fixed asset are recognised in the carrying amount of the fixed asset if the above recognition criteria are met, and the book value of replaced part is derecognised; otherwise, those expenditures are recognised in profit or loss as incurred.

Fixed assets are initially recognised at cost taking into account the impact of expected future disposal expenditure. Cost of purchased fixed assets includes purchasing price, relevant taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use.

Fixed assets are depreciated on a straight-line basis, and the respective estimated useful lives, estimated residual values and annual depreciation rate are as follows:

| | Estimated useful life | Estimated residual value | Annual depreciation rate |
|---|---|---|---|
| Buildings (excluding temporary plants) | 30 years | 5% | 3.17% |
| Electronic equipment | 5–10 years | 5% | 9.5%–19% |
| Machinery equipment | 5–10 years | 5% | 9.5%–19% |
| Motor vehicles | 5–10 years | 5% | 9.5%–19% |
| Other equipment | 5 years | 5% | 19% |

The Group reviews, at least at each year end, useful lives, estimated residual values and depreciation methods of fixed assets and makes adjustments if necessary.

### 12. Construction in progress

Construction-in-progress is measured at the actual construction expenditure, including necessary project expenses, borrowing costs to be capitalised until the project is ready for its intended use and other related costs.

Construction-in-progress is transferred into fixed assets when it is ready for its intended use.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

### 13. Intangible assets

The Group's intangible assets are initially measured at cost.

Useful life of an intangible asset is determined by the period over which it is expected to bring economic benefits to the Group. For an intangible asset with no foreseeable limit to the period over which it is expected to bring economic benefits to the Group, it is treated as an intangible asset with indefinite useful life.

Useful life of respective intangible assets is as follows:

| | **Estimated useful lives** |
|---|---|
| Software | 5 years |
| Technology know-how | 10 years |
| Land use rights | 50 years |
| Operating concession | 20 years |

Land use rights acquired by the Group are normally accounted for as intangible assets. Land use rights and buildings relating to plants constructed by the Group are accounted for as intangible assets and fixed assets, respectively. The costs for acquiring land and buildings are apportioned between the land use rights and buildings, or accounted for as fixed assets if they cannot be apportioned.

Straight line amortisation method is used during the useful life period for intangible assets with definite useful lives. The Group reviews, at least at each year end, useful life and amortisation method for intangible assets with definite lives and makes adjustment when necessary.

### 14. Research and development costs

The Group classified the expense for internal research and development as research costs and development costs.

All research costs are charged to the income statement as incurred.

Development costs are capitalised only when: the completion of the intangible asset for use or sale is technically feasible, there is an intention to complete the asset for use or sale, proof that the asset will be able to generate future economic benefits, including evidence of an existing market for products produced from the intangible asset or the intangible asset itself or of the usefulness of the intangible asset in case of internal use, there are sufficient technical, financial and other resources to complete the development of the intangible asset and the Group is able to use and sell it, development costs attributable to the intangible asset can be measured reliably. Product development expenditure which does not meet these criteria is expensed when incurred.

Corresponding projects in the Group are progressing into the development phase when project listing has been established after meeting the above condition and completing technical and economic feasibility studies.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

### 15. Financial instruments

Financial instruments refer to the contracts which give rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

***Recognition and derecognition of financial instruments***

The Group recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of the financial instrument.

A financial asset (or part of it, or a part of a group of similar financial asset) is derecognised when one of the following criteria is met:

1) The right of receiving the cash flow generated from the financial asset is terminated;

2) The right of receiving cash flow generated by the financial assets is retained with the obligation of paying the full amount of cash flow received to third parties in a timely manner under "withholding" agreements; or

3) The right of receiving cash flow generated by the financial assets is transferred, and (a) substantially all risks and rewards of the ownership of such financial assets have been transferred, or (b) control over such financial assets has been renounced even though substantially none of the risks and rewards of the ownership of such financial assets have been transferred or retained.

If the obligation of financial liability has been fulfilled, cancelled or expired, the financial liability is derecognised. If the present financial liability is substituted by the same debtor with another liability differing in substance, or the terms of the present liability have been substantially modified, this substitution or modification is treated as derecognition of a present liability and recognition of a new liability with any arising difference recognised in profit or loss.

***Classification and valuation of financial assets***

The Group classifies its financial assets into four categories at initial recognition: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. Financial assets are initially recognised at fair value. For financial assets at fair value through profit or loss, the relevant transaction costs are directly recognised in profit or loss; for other financial assets, the relevant transaction costs are recognised in their initial recognition amount.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss comprise held-for-trading financial assets and those designated at fair value through profit or loss at inception. Financial assets are classified as held-for-trading if they satisfy one of the following conditions: they are acquired or incurred principally for the purpose of selling or repurchasing in the near term; they are part of a portfolio of identified financial instruments that are managed together, and for which there is objective evidence of a recent pattern of short-term profit taking; they are derivative financial instruments, with the exception of derivatives designated as valid arbitrage, derivatives under financial guarantee contracts and derivatives linked to and settled by way of delivery of equity investments not quoted in an active market and whose fair value cannot be reliably measured. These financial assets are subsequently measured at fair value, and all realised and unrealised gain or loss are recognised in current period's profit and loss.

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## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

### 15. Financial instruments (continued)

***Classification and valuation of financial assets (continued)***

*Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets whose maturity and redemption amount are fixed or ascertained and in respect of which the Group has clear intentions or ability to hold until maturity. Such financial assets are subsequently measured using the effective interest method on the basis of amortised cost. Gains or losses arising from derecognition, impairment or amortisation are recognised in the current profit and loss.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or those financial assets that are not classified in any of the above categories. Subsequent to initial recognition, these financial assets are measured at fair value. Any discount or premium on acquisition is amortised using the effective interest method and recognised as interest income or fees. Gains and losses arising from fair value changes in available-for-sale financial assets, except for impairment losses and foreign currency monetary items' translation differences which are recognised in profit or loss, are recognised as a separate part of capital reserves until the financial assets are derecognised or impaired upon which the cumulative gains or losses are transferred out from capital reserves to profit or loss. Dividend or interest income derived from available-for-sale financial assets is recognised in profit or loss.

Equity investments that are not quoted in an active market and whose fair value cannot be reliably measured are carried at cost.

***Classification and valuation of financial liabilities***

The Group classifies its financial liabilities at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. For financial liabilities at fair value through profit or loss, the relevant transaction costs are directly recognised in profit or loss; for other financial liabilities, the relevant transaction costs are recognised in their initial recognition amount.

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## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

### 15. Financial instruments (continued)

***Classification and valuation of financial liabilities (continued)***

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss comprise held-for-trading financial liabilities and those designated at fair value through profit or loss at inception. Financial liabilities are classified as held-for-trading if they satisfy one of the following conditions: they are acquired or incurred principally for the purpose of selling or repurchasing in the near term; they are part of a portfolio of identified financial instruments that are managed together, and for which there is objective evidence of a recent pattern of short-term profit taking; they are derivative financial instruments, with the exception of derivatives designated as valid arbitrage, derivatives under financial guarantee contracts and derivatives linked to and settled by way of delivery of equity investments not quoted in an active market and whose fair value cannot be reliably measured. These financial liabilities are subsequently measured at fair value, and all realised and unrealised gain or loss are recognised in current period's profit and loss.

*Other financial liabilities*

Subsequent to initial recognition, these financial assets are carried at amortised cost using the effective interest method.

***Financial guarantee contracts***

Financial guarantee contracts are initially recognised at fair value. Financial guarantee contracts not classified as financial liabilities designated at fair value through profit or loss, after initial recognition, are subsequently measured at the higher of the amount of the best estimates recognised on the basis of expenses required for the fulfillment of relevant present obligations at the balance sheet date and the initial amount less accumulated amortisation recognised in accordance with "ASBE No. 14 — Revenue".

***Derivative financial instruments***

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from the change in fair value on derivatives that do not qualify for hedging accounting are taken directly to the income statement.

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## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

### 15. Financial instruments (continued)

***Convertible bonds***

Upon issuance, the Group determines in accordance with the terms of the convertible bonds whether such bonds consist of both equity and liability components. For convertible bonds that carry both equity and liability components, liability and equity are separately dealt with upon initial recognition. During the segregation, the fair value of the liability is first determined and adopted as the initial recognition. Then the initial recognition of the equity component is determined by deducting the initial liability recognition from the overall issue price of the convertible bonds. Transaction costs are apportioned between liability and equity according to their respective fair values. The liability component is presented as liability and subsequently measured on an amortised cost basis, until it is cancelled, converted or redeemed. The equity component is presented as equity and no subsequent measurement is applicable.

***The fair value of financial instruments***

If there is an active market for a financial asset or financial liability, the Group uses quoted prices in the active market to establish its fair value. For financial instruments where there is no active market, the fair value is established by using valuation techniques. Valuation techniques include reference to most recent market prices used by knowledgeable and willingness parties, reference to current fair value of other financial instrument with similar nature, discounted cash flow method and option valuation models.

***Impairment of financial assets***

The Group assesses at the balance sheet date the carrying amount of financial assets. If there is any objective evidence that a financial asset is impaired, the Group provides for such impairment losses. The objective evidence which indicates impairment of financial assets represents events actually occurring after initial recognition of financial assets which have an impact on financial assets' estimated future cash flows, and such impact can be reliably measured.

*Assets carried at amortised cost*

If there is objective evidence that an impairment loss on such financial assets has been incurred, the financial asset's carrying amount is reduced to be the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Impairment is recognised in the income statement. The present value of estimated future cash flows shall be calculated with the financial asset's original effective interest rate and the related collateral value shall also be taken into account.

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## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

### 15. Financial instruments (continued)

***Impairment of financial assets (continued)***

*Assets carried at amortised cost (continued)*

For a financial asset that is individually significant, the Group assesses the asset individually for impairment, and recognises the amount of impairment in profit or loss if there is any objective evidence of impairment. For a financial asset that is not individually significant, the Group include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. If it is determined that no impairment exists for an individually assessed financial asset, whether the financial asset is individually significant or not, the financial asset included in a group of financial assets with similar credit risk characteristics is re-assessed for impairment. Financial assets for which an impairment loss is individually recognised are not included in the collective assessment for impairment.

After the Group recognises impairment loss of financial assets carried at amortised cost, if there is objective evidence that the financial assets' value restores and the restoration can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss shall be reversed and recognised in profit or loss. However the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date when the impairment is reversed.

*Available-for-sale financial assets*

If there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognised directly in capital reserves is removed from capital reserves and recognised in profit or loss. The cumulative loss that is removed from capital reserves is the difference between its acquisition cost (net of any principal repayment and amortisation) and its current fair value less any impairment loss previously recognised in profit and loss.

If after an impairment loss has been recognised on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period whereby the increase can be objectively related to an event occurring after the impairment losses were recognised, the impairment loss is reversed which is recognised in profit or loss. Impairment losses recognised for equity instruments classified as available-for-sale are not reversed through profit or loss.

*Assets carried at cost*

If there is objective evidence that financial assets carried at cost are impaired, the impairment loss are recognised in profit or loss and measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

For long term equity investments measured using the cost method regulated in "ASBE No. 2 — Longterm equity investments" which have no quotation in an active market and whose fair value cannot be reliably measured, their impairment also follows the aforementioned principle.

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## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

### 15. Financial instruments (continued)

***Derecognition of financial assets***

If the Group has transferred substantially all the risks and rewards associated with the ownership of a financial asset to the transferee, the asset should be derecognised. If the Group retains substantially all the risks and rewards of ownership of a financial asset, the asset should not be derecognised.

When the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, the situation is divided into the following: if the Group has not retained control of the financial asset, the financial asset is derecognised, and any associated assets and liabilities are recognised. If the Group has retained control of the financial asset, it recognises the financial asset to the extent of its continuing involvement in the transferred financial asset and recognises an associated liability.

### 16. Borrowing costs

Borrowing cost is interest and other costs incurred by the Group in connection with the borrowing of funds, which includes borrowing interest, amortisation of discount or premium on debt, other supplementary costs and certain foreign exchange differences that occurred from the borrowing in foreign currencies.

Borrowing costs directly attributable to the acquisition, construction of qualifying assets, i.e., fixed assets, investment properties and inventories that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Other costs are recognised in the current profit and loss.

Capitalisation of borrowing costs begins where:

— Capital expenditure has already happened;

— Borrowing expenses has already incurred;

— Purchasing or production activities to get the assets ready for their intended use or sale have already happened.

The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Borrowing costs incurred afterwards are recognised in profit or loss.

During capitalisation, interest of each accounting period is recognised using the following methods:

— Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less any temporary deposit interest or investment income earned on such borrowings.

— Where funds are part of a general pool, the eligible amount is determined by applying the weighted average interest rate of the borrowing costs applicable to the general pool to the weighted average expenditure on that asset in excess of the specific borrowing.

Except for expected suspension during the process of acquisition, construction or production of qualifying assets, capitalisation should be suspended during periods in which abnormal interruption has lasted for more than three months. The borrowing cost incurred during interruption should be recognised as expenses and recorded in the income statement until the resume of the construction.

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## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

### 17. Impairment of assets

The Group assesses impairment to assets other than inventories, deferred tax assets, financial assets and long term equity investments under cost accounting that are not quoted in an active market and the fair value of which cannot be reliably measured, using the methods described below:

The Group assesses at each balance sheet date whether there is an indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount and performs a test of impairment for the asset. For goodwill generated from business consolidation and intangible assets with indefinite useful lives, tests for impairment is performed at least annually regardless of whether there are indications of impairment.

Recoverable amount is the higher of the asset's fair value less costs to sell and its present value of estimated future cash flows. The Group estimates recoverable value for individual assets. When it is difficult to estimate individually, the recoverable value of the cash generating units which the asset belongs to will be estimated. The definition of cash generating units is determined on the basis of whether the cash generating units generate cash flows which are largely independent of those from other cash generating units.

Where the carrying amount of an asset or a cash generating unit exceeds its recoverable amount, the asset or cash generating unit is considered impaired and is written down to its recoverable amount. The difference between the carrying amount and recoverable amount is recognised in the current period's profit or loss and provision for impairment is made accordingly.

Previously recorded impairment losses are not reversed in subsequent periods.

### 18. Provision

The Group recognises as liability an obligation that fulfils the following criteria and is related to contingent matters:

— the obligation in question is a present obligation of the Group;

— the obligation would probably result in an outflow of economic resources from the Group;

— the obligation could be reliably measured.

Provision was initially valued according to the best estimation for expense on fulfilling the current liabilities, in connection with the contingent risk associated, uncertainty and timing value of the currency. The book value of the provision would be reassessed on every balance sheet date. And book value will be adjusted to the best estimated value if there is certain evidence that the book value is not the best estimation.

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## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

### 19. Revenue

Revenue is recognised when it is probable that the economic benefits will flow to the Group and the amount of the revenue can be measured reliably. Revenue is recognised on the following bases:

*Revenue from the sale of goods*

Revenue from sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, the Group has maintained neither managerial involvement to the degree usually associated with ownership nor effective control over the goods sold and related costs incurred or to be incurred can be measured reliably.

*Revenue from the rendering of services*

On the balance sheet date, the revenue from services is recognised when transaction result of the rendering of services could be measured reliably, related revenue from services is recognised according to the percentage of completion, otherwise revenue is recognised only to the extent of cost incurred that are expected to be recoverable. The transaction result of the supply of services could be measured reliably by meeting the following conditions at the same time: Revenue can be measured reliably, the relevant economic benefits will follow to the Group, the percentage of construction work and relevant cost incurred can be measured reliably. The percentage of completion is based on the percentage of costs incurred to date on a contract relative to the estimated total expected contract costs.

*Revenue from telecommunications system construction contracts*

Operating revenue is recognised by reference to the estimated completion based on the proportion of costs incurred to date to the estimated total cost of the relevant construction contract where the total revenue and total costs could be measured reliably and where transaction-related amounts are allowed to pass into the Company, and costs would be accounted for accordingly.

The revenue from contracts involving multiple deliverables including sales of goods, construction of telecommunication systems, supply of services, etc. is recognised at the respective fair value based on the sales recognition methods mentioned above accordingly.

### 20. Operating leases

Rental expenditure under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms either as relevant asset cost or in the current profit and loss.

### 21. Employee remuneration

Employee benefits represent all forms of remuneration provided and other relevant expenditures incurred by the Group in exchange for service rendered by employees. During the accounting period when employees provide services, employee benefits payable is recognised as a liability. Items which expire longer than one year after the balance sheet date are measured at present value if the discounting impact is significant.

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## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

### 21. Employee remuneration (continued)

*Defined contribution pension scheme*

Employees of the Group participated in contribution pension scheme managed by the local government, including pension scheme, medical insurance, unemployment insurance and housing fund, the contributions payable are charged as relevant asset cost or in the current profit and loss as incurred.

*Defined benefits pension scheme*

In addition, the Group provides certain employees, who joined the Group before 1 January 2002, with post-retirement monthly pension payments. The cost of providing these benefits under the Group's defined benefits pension scheme is actuarially determined and recognised over the employees' service period by using the projected unit credit method. The Group makes monthly pension payments to eligible retirees and no contribution has been made to fund future obligations since the commencement of the defined benefits pension scheme. Therefore, there are no assets in respect of this scheme held separately from those of the Group in independently administered funds and no forecast on asset return is required.

*Share incentive schemes*

The Company operates a share incentive scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the operations of the Group, whereby employees (including directors) of the Group render services as part of the consideration for obtaining equity instruments of the Company.

The cost of share incentive schemes is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of share incentive schemes is recognised, together with a corresponding increase in capital reserves, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The expense of share incentive schemes recognised for the period is the cumulative expense recognised at each balance sheet date until the vesting date less the cumulative expense recognised in previous periods.

For share incentive schemes whose vesting is conditional upon performance conditions, the effect of market conditions should be taken into account when determining its fair value. An employee should be deemed to have rendered his service if all other non-market conditions have been fulfilled.

Where the terms of a share incentive scheme are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification which increases the total fair value of the share incentive scheme, or is otherwise beneficial to the employee as measured at the date of modification.

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## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

### 21. Employee remuneration (continued)

*Share incentive schemes (continued)*

Where a share incentive scheme is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new scheme is substituted for the cancelled scheme, and designated as a replacement scheme on the date that it is granted, the new scheme is treated as if it were a modification of the original scheme, as described in the previous paragraph.

The dilution effect of the share-based payment is reflected in the additional shares in the calculation of diluted earning per shares.

### 22. Income tax

Income taxes include current and deferred tax. Income taxes are recognised in current period's profit and loss as income tax expense or income, except for taxes relating to transactions or matters directly dealt with in equity, which will be dealt with in equity.

Current tax represents current income tax payable calculated on current taxable income. Taxable income is calculated by adjustment to current period's accounting profit before tax according to the relevant tax regulations.

For current period's deferred tax assets and liabilities arising in current and prior periods, the Group measures them at the amount expected to be paid or recovered according to the relevant taxation regulations.

The Group recognises deferred tax liabilities or assets based on temporary differences using balance sheet liability method. Temporary differences are differences between the carrying amount of assets or liabilities in the balance sheet and their tax base. Temporary differences also include the differences between the book values and tax bases of items that are not recognised as assets or liabilities but whose tax base can be calculated according to the relevant tax regulations.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

1) in the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

2) for temporary differences of payable taxes relating to investments in subsidiaries, joint ventures and associates, the time for reversal of the said temporary differences can be controlled and the said temporary differences are unlikely to be reversed in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

1) where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

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## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

### 22. Income tax (continued)

2) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

As at balance sheet date, deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, and reflects the tax consequences that would follow the manner in which the Group expects, at the balance sheet date, to recover the assets or settle the carrying amount of its assets and liabilities.

The Group re-assesses book value of deferred tax assets at each balance sheet date. The Group reduces the book value of deferred tax assets if future taxable profit may not be sufficient to offset the benefits from the assets. When future taxable profit is sufficient, the reduction is reversed.

### 23. Government grants

Government grants mainly represented refunds of VAT and contributions to development fund, as well as financial subsidy for new products. Government grants received or receivable for the compensation of expenses or losses incurred are recognised in the current profit and loss where all attaching conditions are being complied with and the grant will be received. Where the grant is used to compensate future expenses or losses or relates to assets, the amount received or receivable shall be recognised as income over the periods for which the relevant costs are recognised or the expected useful life of the relevant asset by equal annual instalments.

### 24. Significant accounting judgements and estimates

The preparation of financial statements requires judgement and estimation of the management. Such judgement and estimation will affect the reported amounts of revenue, expenses, assets and liabilities and the disclosure of contingent liabilities as at the balance sheet date. However, the consequence arising from the uncertain nature of such estimation may result in significant adjustment to the book value of the asset or liability affected in the future.

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## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

### 24. Significant accounting judgements and estimates (continued)

***Judgements***

In the process of applying the Group's accounting policies, management has made the following judgement, which have the most significant effect on the amounts recognised in the financial statements:

*Revenue recognition*

The Group's material revenue streams are the result of a wide range of activities, from custom design and installation over a period of time to a single delivery of equipment to a customer. The Group's networking solutions also cover a broad range of technologies and are offered on a global basis. As a result, our revenue recognition policies can differ depending on the level of customisation within the solution and the contractual terms with the customer. Newer technologies within one of the Group's reporting segments may also have different revenue recognition policies, depending on, among other factors, the specific performance and acceptance criteria within the applicable contract. Therefore, management must use significant judgement in determining how to apply the current accounting standards and interpretations, not only based on the networking solution, but also within networking solutions based on reviewing the level of customisation and contractual terms with the customer. As a result, our revenues may fluctuate from period to period based on the mix of solutions sold and the geographic region in which they are sold.

When a customer arrangement involves multiple deliverables where the deliverables are governed by more than one authoritative standard, the Group evaluates all deliverables to determine whether they represent separate units of accounting based on the following criteria:

1) whether the delivered item has value to the customer on a stand alone basis;

2) whether there is objective and reliable evidence of the fair value of the undelivered item(s); and

3) if the contract includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and is substantially in the Group's control.

The Group's determination of whether deliverables within a multiple element arrangement can be treated separately for revenue recognition purposes involves significant estimates and judgement, such as whether fair value can be established on undelivered obligations and/or whether delivered elements have standalone value to the customer. The Group's assessment of the accounting units in an arrangement and/or our ability to establish fair values could significantly change the timing of revenue recognition.

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## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

### 24. Significant accounting judgements and estimates (continued)

***Judgements (continued)***

*Revenue recognition (continued)*

If objective and reliable evidence of fair value exists for all units of accounting in the contract, revenue is allocated to each unit of accounting or element based on relative fair values. In situations where there is objective and reliable evidence of fair value for all undelivered elements, but not for delivered elements, the residual method is used to allocate the contract consideration. Under the residual method, the amount of revenue allocated to delivered elements equals the total arrangement consideration less the aggregate fair value of any undelivered elements. Each unit of accounting is then accounted for under the applicable revenue recognition guidance. If sufficient evidence of fair value cannot be established for an undelivered element, revenue related to delivered elements is deferred until the earlier of when sufficient fair value is established and when all remaining elements have been delivered. Once there is only one remaining element to be delivered within the unit of accounting, the deferred revenue is recognised based on the revenue recognition guidance applicable to the last delivered element. For instance, where post-contract support is the last delivered element within the unit of accounting, the deferred revenue is recognised ratably over the remaining post-contract support term once post contract support is the only undelivered element.

The Group's assessment of which revenue recognition guidance is appropriate for accounting for a deliverable also can involve significant judgement. For instance, the determination of whether software is more than incidental to hardware can impact on whether the hardware is accounted for based on software revenue recognition guidance or based on general revenue recognition guidance. This assessment could significantly impact the amount and timing of revenue recognition.

For elements related to customised network solutions and certain network build-outs, revenues are recognised under the ASBE 15 Construction Contract, generally using the percentage-of-completion method. In using the percentage-of-completion method, revenues are generally recorded based on a measure of the percentage of costs incurred to date on a contract relative to the estimated total expected contract costs. Profit estimates on long-term contracts are revised periodically based on changes in circumstances and any losses on contracts are recognised in the period that such losses become known. Generally, the terms of long-term contracts provide for progress billing are based on completion of certain phases of work. Contract revenues recognised, based on costs incurred towards the completion of the project, that are unbilled are accumulated in the contracts in progress account included in amount due from customers for contract works. Billings in excess of revenues recognised to date on long-term contracts are recorded as advance billings in excess of revenues recognised to date on contracts within amount due to customers for contract works. Significant judgement is often required when estimating total contract costs and progress to completion on these arrangements, as well as whether a loss is expected to be incurred on the contract. Management uses historical experience, project plans and an assessment of the risks and uncertainties inherent in the arrangement to establish these estimates. Uncertainties include implementation delays or performance issues that may or may not be within the control of the Group. Changes in these estimates could result in a material impact on revenues and net earnings.

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## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

### 24. Significant accounting judgements and estimates (continued)

***Judgements (continued)***

*Revenue recognition (continued)*

Revenue for hardware that does not require significant customisation, and where any software is considered incidental, is recognised under "ASBE No. 14 — Revenue", revenue is recognised provided that: it is probable that the economic benefits of the income will flow to the Group; the amount can be reliably measured; the Group has transferred the principal risks and rewards of ownership to the buyer and has not retained ongoing management and effective control usually associated with ownership; and relevant costs incurred or to be incurred can be reliably measured.

For hardware, delivery is considered to have occurred upon shipment provided that the risk of loss, and title in certain jurisdictions, have been transferred to the customer. For arrangements where the criteria for revenue recognition have not been met because legal title or the risk of loss on products was not transfer to the buyer until final payment had been received or where delivery had not occurred, revenue is deferred to a later period when title or the risk of loss passes either on delivery or on receipt of payment from the customer.

For further information on the Group's revenue recognition policies relating to our material revenue streams, please refer to Notes III. 19 to these consolidated financial statements.

***Estimation uncertainty***

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

*Impairment of fixed assets, construction in progress and intangible assets*

The Group determines whether there is an indication of impairment of fixed assets, construction in progress and intangible assets. If there is an indication of impairment, the Group will estimate the recoverable amount and conduct impairment tests. The recoverable amount is determined as the fair value of the asset net of disposal expenses or the present value of expected future cash flows, whichever is higher. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the asset or the cash-generating unit to which it belong and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

When the recoverable amount of fixed assets, construction in progress and intangible assets falls below the carrying amount, the difference is recognized as an impairment loss in the carrying amount. The impairment loss is charged to the income statement in the period in which it arises and a corresponding provision for asset impairment is made.

*Impairment of financial assets*

The Group determines whether there is objective evidence that financial assets are impaired by estimating the future cash flow from the financial assets. The present value of estimated future cash flows is discounted at the financial asset's original effective interest rate, taking into account the value of the related collateral. Where the actual future cash flow is less than expected, an impairment loss may arise.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

### 24. Significant accounting judgements and estimates (continued)

***Estimation uncertainty (continued)***

*Equity settled share expense*

The estimated cost of the share incentive scheme is recognised in income statements based on estimation of various assumptions, including that in relation to the turnover rate of respective participants under the scheme. In situation that the actual turnover rate is less than the management estimation, such cost would be higher.

*Depreciation and amortisation*

The Group depreciates items of fixed assets and amortises items of intangible assets on the straight-line basis over their estimated useful lives, and after taking into account their estimated residual value, commencing from the date the items of fixed assets are placed into productive use. These estimates reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's fixed assets and intangible assets.

*Development expenses*

In determining the amount of capitalisation, the management must make assumptions concerning the expected future cash flow, applicable discount ratio and expected period of benefits of the assets.

*Deferred tax assets*

Deferred tax assets are recognised for all unused tax losses, unused tax deductions and deductible temporary differences to the extent that it is likely that taxable profit will be available to utilise these losses. Significant judgments are needed from management to estimate the timing and amount of taxable profit and apply tax planning strategies to determine the amount of the deferred tax assets that should be recognised.

## IV. TAXATION

The principal tax items and tax rates applicable to the Group were as follows:

| | | |
|---|---|---|
| Value-added tax | — | Payable on income generated from domestic sales of products and equipment repair services at a tax rate of 17% after deducting the current balance of tax credit available for offsetting. |
| Business tax | — | In accordance with relevant PRC tax regulations, business tax was payable by the Group at tax rates of 3% and 5%, respectively, on its sales income and service income which were subject to business tax. |

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
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## IV. TAXATION (continued)

| | | |
|---|---|---|
| City maintenance and construction tax | — | In accordance with relevant PRC tax regulations and local regulations, city maintenance and construction tax was payable according to rates stipulated by the State based on individual situations of the branches and subsidiaries of the Group. |
| Education surcharge | — | In accordance with relevant PRC tax regulations and local regulations, education surcharge was payable according to rates stipulated by the State based on individual situations of the branches and subsidiaries of the Group. |
| Individual income tax | — | In accordance with relevant PRC tax regulations, the Group withheld income tax from its salary payments to employees based on progressive tax rates. |
| Enterprise income tax | — | In accordance with the Law on Enterprise Income Tax promulgated on 1 January 2008, enterprise income tax was payable by the Group on its taxable income. |
| Overseas tax | — | Overseas taxes were payable in accordance with tax laws of various countries and regions. |

The Company is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise which was registered and established in Shenzhen Special Economic Zone. Enterprise income taxes for certain of the Group's domestic subsidiaries are as following:

Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise. Pursuant to Document Shen Guo Shui Nan Jian Mian Bei An (2009) No. 132, the said company is entitled to enterprise income tax exemption in the first and second years of operation and the normal tax rate shall apply from the third year onwards. The current year was its third profitable year and the applicable enterprise income tax rate is 15%.

Shenzhen Zhongxing Mobile Technology Company Limited is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise registered and established in Hi-Tech Industrial Park, Nanshan District, Shenzhen.

Shenzhen ZTE Integration Telecom Limited has been entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction of enterprise income tax from the third to the fifth year as a manufacturing enterprise pursuant to the Document Shen Guo Shui Nan Jian Mian (2004) No. 0372 issued by the Nanshan State Tax Bureau in Shenzhen. The current year was its fifth profitable year and a 50% reduction of the enterprise income tax rate of 20% is applicable.

Shenzhen Zhongxing Software Company Limited is entitled to an enterprise income tax rate of 10% as one of the 2009 important software enterprises under the national planning layout.

Shenzhen Zhongxing Liwei Technology Company Limited has been entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction of enterprise income tax from the third to the fifth year pursuant to the Document Shen Guo Shui Nan Jian Mian (2005) No. 0217 issued by the Nanshan State Tax Bureau in Shenzhen. The current year was its fifth profitable year and a 50% reduction of the enterprise income tax rate of 20% is applicable.

Shenzhen Zhongxing Special Equipment Company Limited has been entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction of enterprise income tax from the third to the fifth year pursuant to the Document Shen Guo Shui Nan Jian Mian (2006) No. 0002 issued by the Nanshan State Tax Bureau in Shenzhen. The current year was its fifth profitable year and a 50% reduction of the enterprise income tax rate of 20% is applicable.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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## IV. TAXATION (continued)

ZTE Microelectronics Technology Company Limited, whose tax holiday expired on 31 December 2008, is subject to an enterprise income tax rate of 15% for the current year as a national-grade hi-tech enterprise for the period from 2008 to 2010.

Shenzhen Lead Communication Equipment Company Limited is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise.

Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise which was incorporated in Shanghai Pudong New Area.

Shanghai Zhongxing Software Company Limited has been entitled to enterprise income tax exemption in the first and second profitable years and was entitled to a 50% reduction in enterprise income tax from the third to the fifth year pursuant to Document Pu Shui Shi Wu Suo Jian (2007) No. 301 issued by the State Tax Bureau of Pudong New Area, Shanghai. The current year is its third profitable year and a 50% reduction of the enterprise income tax rate of 20% is applicable. The said company is also a national-grade hi-tech enterprise for the period from 2008 to 2010.

Nanjing Zhongxing Software Company Limited has been entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth year pursuant to Document Suo Hui Zi Jian (2007) No. 4 issued by the State Tax Bureau of Yuhuatai District, Nanjing. The current year is its fourth profitable year and a 50% reduction of the enterprise income tax rate of 25% is applicable. The said company is also a national-grade hi-tech enterprise for the period from 2008 to 2010.

ZTEsoft Technology Company Limited is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise.

Xi'an Zhongxing Software Company Limited has been entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth year pursuant to Document Shi Guo Shui Zhi Han (2008) No. 29 issued by the Direct Branch of State Tax Bureau of Xi'an. The current year is its third profitable year and a 50% reduction of the enterprise income tax rate of 25% is applicable. The said company is also a national-grade hi-tech enterprise for the period from 2008 to 2010.

Xi'an Zhongxing Jing Cheng Communication Company Limited is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise.

Wuxi Zhongxing Optoelectronics Technologies Company Limited is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise which was registered in Wuxi National Hi-tech Industrial Development Park.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
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## V. CONSOLIDATING SCOPE OF THE CONSOLIDATED FINANCIAL STATEMENT

Particulars of the principal subsidiaries of the Group are as below:

| Name of company | Place of registration | Principal activities | Registered capital | Investment by the Group | Percentage of equity interests Direct | Percentage of equity interests Indirect | Percentage of voting rights | Organisation number |
|---|---|---|---|---|---|---|---|---|
| Shenzhen Zhongxing Software Company Limited | Shenzhen | Manufacturing | RMB50 million | RMB49 million | 73% | 25% | 98% | 75250847–2 |
| ZTE (H.K.) Limited | Hong Kong | Information technology | HKD500 million | HKD500 million | 100% | – | 100% | Nil |
| Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited | Shenzhen | Telecommunication services | RMB50 million | RMB50 million | 90% | 10% | 100% | 76199710–8 |
| ZTE Kangxun Telecom Company Limited | Shenzhen | Manufacturing of telecommunication and related equipment | RMB50 million | RMB45 million | 90% | – | 90% | 279285671 |
| ZTE Telecom India Private Limited | India | Manufacturing of telecommunication and related equipment | INR1,250 million | USD28.80 million | 100% | – | 100% | Nil |
| ZTEsoft Technology Company Limited | Nanjing | Manufacturing | RMB200 million | RMB45.04 million | 76% | – | 76% | 74537900–0 |
| Shenzhen Changfei Investment Company Limited | Shenzhen | Manufacturing | RMB30 million | RMB15.30 million | 51% | – | 51% | 75860475–6 |
| Shenzhen Zhongxing Mobile Technology Company Limited | Shenzhen | Manufacturing of telecommunication and related equipment | RMB39,583,000 | RMB31.67 million | 80% | – | 80% | 73205874–2 |
| Wuxi Zhongxing Optoelectronics Technologies Company Limited | Wuxi | Manufacturing of telecommunication and related equipment | RMB10 million | RMB6.50 million | 65% | – | 65% | 71869554–2 |
| Anhui Wantong Postal and Telecom Company Limited | Hefei | Manufacturing of telecommunication and related equipment | RMB31.10 million | RMB15.70 million | 51% | – | 51% | 1489470–9 |
| ZTE Integration Telecom Limited | Shenzhen | Manufacturing of telecommunication and related equipment | RMB55 million | RMB44 million | 75% | 5% | 80% | 74886449–0 |
| Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited | Shanghai | Telecommunication services | RMB10 million | RMB5.10 million | 51% | – | 51% | 76223980–0 |
| Xi'an Zhongxingxin Software Company Limited | Xi'an | Manufacturing of telecommunication and related equipment | RMB600 million | RMB600 million | 100% | – | 100% | 68385252–7 |
| ZTE (Hangzhou) Company Limited | Hangzhou | Manufacturing of telecommunication and related equipment | RMB100 million | RMB100 million | 100% | – | 100% | 68908984–1 |
| ZTEICT Technology Company Limited | Shenzhen | Manufacturing of telecommunication and related equipment | RMB30 million | RMB24 million | 80% | – | 80% | 68537795-0 |

During the six months ended 30 June 2009, the Group established 5 new subsidiaries. These subsidiaries are not principal operating subsidiaries and their results have been consolidated in the Group.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
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## VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED)

### 1. Cash on hand and at bank

| | | **30 June 2009** | | | 31 December 2008 | | |
|---|---|---|---|---|---|---|---|
| | | **Original Currency** | **Exchange rate** | **RMB equivalent** | Original Currency | Exchange rate | RMB equivalent |
| Cash | RMB | **585** | **1** | **585** | 656 | 1 | 656 |
| | USD | **1,166** | **6.8319** | **7,966** | 1,343 | 6.8346 | 9,179 |
| | SAR | **593** | **1.8168** | **1,077** | 1,250 | 1.8193 | 2,274 |
| | EUR | **1,309** | **9.6408** | **12,620** | 210 | 9.659 | 2,028 |
| | MRO | **13,700** | **0.0258** | **353** | 12,735 | 0.0268 | 341 |
| | DZD | **2,256** | **0.0951** | **215** | 1,875 | 0.0963 | 181 |
| | INR | **397** | **0.1417** | **56** | 1,262 | 0.1402 | 177 |
| | THB | **127** | **0.2008** | **26** | 454 | 0.1958 | 89 |
| | HKD | **21** | **0.8815** | **19** | 37 | 0.8819 | 33 |
| | Others | **—** | **—** | **11,860** | — | — | 341 |
| | Subtotal | | | **34,777** | | | 15,299 |

| | | **30 June 2009** | | | 31 December 2008 | | |
|---|---|---|---|---|---|---|---|
| | | **Original Currency** | **Exchange rate** | **RMB equivalent** | Original Currency | Exchange rate | RMB equivalent |
| Bank deposit | RMB | **6,872,006** | **1** | **6,872,006** | 6,334,308 | 1 | 6,334,308 |
| | USD | **581,568** | **6.8319** | **3,973,214** | 495,904 | 6.8346 | 3,389,305 |
| | HKD | **135,103** | **0.8815** | **119,093** | 27,651 | 0.8819 | 24,385 |
| | BRL | **49,874** | **3.5066** | **174,888** | 21,340 | 2.8944 | 61,767 |
| | PKR | **690,039** | **0.0841** | **58,032** | 2,166,164 | 0.0864 | 187,157 |
| | EGP | **20,610** | **1.2244** | **25,235** | 28,296 | 1.2382 | 35,036 |
| | IDR | **384,748,527** | **0.0007** | **269,324** | 225,974,462 | 0.0006 | 135,585 |
| | EUR | **33,409** | **9.6408** | **322,089** | 88,884 | 9.659 | 858,531 |
| | DZD | **374,051** | **0.0951** | **35,572** | 1,030,179 | 0.0963 | 99,206 |
| | MYR | **8,033** | **1.9395** | **15,580** | 5,962 | 1.973 | 11,763 |
| | Others | | | **160,428** | | | 191,818 |
| | Subtotal | | | **12,025,461** | | | 11,328,861 |

| | | **30 June 2009** | | | 31 December 2008 | | |
|---|---|---|---|---|---|---|---|
| | | **Original Currency** | **Exchange rate** | **RMB equivalent** | Original Currency | Exchange rate | RMB equivalent |
| Other currency | RMB | **343,356** | **1** | **343,356** | 132,184 | 1 | 132,184 |
| | Others | | | **24,657** | | | 4,062 |
| | Subtotal | | | **368,013** | | | 136,246 |
| | Total | | | **12,428,251** | | | 11,480,406 |

# NOTES TO FINANCIAL STATEMENTS

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**VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)**

**1. Cash on hand and at bank (continued)**

| Restricted assets | 30 June 2009 | 31 December 2008 |
|---|---|---|
| Deposits for acceptance bills | **326,825** | 131,519 |
| Frozen under litigations | **24,583** | 4,727 |
| | **351,408** | 136,246 |

Current bank deposits earn interest income based on current deposit interest rate. The period for short-term time deposit varies from 7 days to 3 months. The short-term time deposits earn interest income based on corresponding time deposits interest rate, subject to the Group's cash needs.

**2. Bills receivable**

| | 30 June 2009 | 31 December 2008 |
|---|---|---|
| Bank acceptance bills | **698,847** | 370,751 |
| Commercial acceptance bills | **3,644,319** | 1,207,722 |
| Total | **4,343,166** | 1,578,473 |

As at 30 June 2009, there was no outstanding amount due from shareholders holding 5% or more in the shares.

**3. Trade receivables**

Trade receivables arising from communications systems construction works and the provision of labour services are recognised according to the payment periods stipulated in contracts. The credit period for trade receivables arising in the sales of goods normally ranges from 0–90 days, and may be extended to a maximum of 1 year depending on the credit standing of the customer. Trade receivables are interest-free.

*The Group*

| | 30 June 2009 | | | 31 December 2008 | | |
|---|---|---|---|---|---|---|
| | Original Currency | Exchange rate | RMB equivalent | Original Currency | Exchange rate | RMB equivalent |
| RMB | **6,207,402** | **1** | **6,207,402** | 3,492,649 | 1 | 3,492,649 |
| USD | **570,014** | **6.8319** | **3,894,279** | 599,951 | 6.8346 | 4,100,425 |
| EUR | **126,365** | **9.6408** | **1,218,260** | 119,375 | 9.659 | 1,153,043 |
| PKR | **826,233** | **0.0841** | **69,486** | 3,572,039 | 0.0864 | 308,624 |
| INR | **4,356,775** | **0.1417** | **617,355** | 3,360,114 | 0.1402 | 471,088 |
| Others | | | **1,317,453** | | | 446,666 |
| Total | | | **13,324,235** | | | 9,972,495 |

# NOTES TO FINANCIAL STATEMENTS

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## VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

### 3. Trade receivables (continued)

*The Group (continued)*

Aging analysis of trade receivables was as follows:

| | **30 June 2009** | 31 December 2008 |
|---|---|---|
| Within one year | **13,191,355** | 9,915,769 |
| Between one to two years | **1,074,930** | 1,016,036 |
| Between two to three years | **467,478** | 265,763 |
| Over three years | **376,220** | 301,657 |
| | **15,109,983** | 11,499,225 |
| Less: bad debt provision for trade receivables | **1,785,748** | 1,526,730 |
| | **13,324,235** | 9,972,495 |

| | **30 June 2009** | | | | 31 December 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Balance** | **Percentage of the total balance** | **Provision for bad debts** | **Percentage of provision** | Balance | Percentage of the total balance | Provision for bad debts | Percentage of provision |
| Individually significant balances | **7,377,164** | **49%** | **987,270** | **13%** | 5,792,559 | 50% | 915,130 | 16% |
| Not significant balances | **7,732,819** | **51%** | **798,478** | **10%** | 5,706,666 | 50% | 611,600 | 11% |
| | **15,109,983** | **100%** | **1,785,748** | **12%** | 11,499,225 | 100% | 1,526,730 | 13% |

Specific bad debt provision was accrued for those trade receivables with objective evidences of impairment.

Bad debt provision of trade receivables was as follows:

| | **Opening balance of the period** | **Provision for the period** | **Written back for the period** | **Written off for the period** | **Closing balance of the period** |
|---|---|---|---|---|---|
| 30 June 2009 | **1,526,730** | **377,187** | **—** | **(118,169)** | **1,785,748** |
| 31 December 2008 | 1,055,465 | 471,265 | — | — | 1,526,730 |

The top five balances of trade receivables amounted to RMB4,971,969,000 (31 December 2008: RMB3,454,485,000), accounting for 32.91% of the total balance of trade receivables (31 December 2008: 30.04%) of the Group as at the end of the period.

As at 30 June 2009, no outstanding amount due from shareholders holding 5% or more in the shares (31 December 2008: RMB943,000). Please refer to Note VIII "The relationships and transactions among related parties" for details.

Transfer of trade receivables that did not satisfy the condition of derecognition was separately classified as "Factored trade receivables" which amounted to RMB1,443,570,000 (31 December 2008: RMB1,658,941,000).

# NOTES TO FINANCIAL STATEMENTS

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## VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

### 3. Trade receivables (continued)

*The Group (continued)*

As at the balance sheet date, aging analysis of trade receivables not overdue nor impaired and trade receivables overdue but not impaired were as follows:

| | **30 June 2009** | 31 December 2008 |
|---|---|---|
| Not overdue nor impaired | **3,859,783** | 2,625,931 |
| Overdue but not impaired within one year | **5,422,208** | 5,866,359 |
| | **9,281,991** | 8,492,290 |

*The Company*

| | **30 June 2009** | | | 31 December 2008 | | |
|---|---|---|---|---|---|---|
| | **Original currency** | **Exchange rate** | **RMB equivalent** | Original currency | Exchange rate | RMB equivalent |
| RMB | **5,584,970** | **1** | **5,584,970** | 3,380,510 | 1 | 3,380,510 |
| USD | **1,204,627** | **6.8319** | **8,229,891** | 1,173,369 | 6.8346 | 8,019,507 |
| EUR | **221,416** | **9.6408** | **2,134,627** | 164,686 | 9.659 | 1,590,702 |
| Others | | | **586,934** | | | 195,923 |
| Total | | | **16,536,422** | | | 13,186,642 |

Aging analysis of trade receivables was as follows:

| | **30 June 2009** | 31 December 2008 |
|---|---|---|
| Within one year | **13,410,813** | 11,239,738 |
| Between one to two years | **2,847,485** | 1,939,666 |
| Between two to three years | **887,706** | 765,127 |
| Over three years | **788,949** | 475,326 |
| | **17,934,953** | 14,419,857 |
| Less: bad debt provision for trade receivables | **1,398,531** | 1,233,215 |
| | **16,536,422** | 13,186,642 |

| | **30 June 2009** | | | | 31 December 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Balance** | **Percentage of the total balance** | **Provision for bad debts** | **Percentage of provision** | Balance | Percentage of the total balance | Provision for bad debts | Percentage of provision |
| Individually significant balances | **9,309,549** | **52%** | **762,550** | **8%** | 7,993,118 | 55% | 780,827 | 10% |
| Not significant balances | **8,625,404** | **48%** | **635,981** | **7%** | 6,426,739 | 45% | 452,388 | 7% |
| | **17,934,953** | **100%** | **1,398,531** | **8%** | 14,419,857 | 100% | 1,233,215 | 9% |

# NOTES TO FINANCIAL STATEMENTS

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## VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

### 3. Trade receivables (continued)

*The Company (continued)*

Bad debt provision of trade receivables was as follows:

| | Opening balance of the period | Provision for the period | Written back for the period | Written off for the period | Closing balance of the period |
|---|---|---|---|---|---|
| 30 June 2009 | **1,233,215** | **283,485** | **—** | **(118,169)** | **1,398,531** |
| 31 December 2008 | 887,848 | 345,367 | — | — | 1,233,215 |

The top five balances of trade receivables amounted to RMB4,805,845,000 (31 December 2008: RMB3,765,089,000), accounting for 26.80% of the total balance of trade receivables (31 December 2008: 26.11%) of the Company as at the end of the period.

Of the balance of trade receivables as at 30 June 2009, none was due from shareholders holding 5% or more in the shares (31 December 2008: nil).

Transfer of trade receivables that did not satisfy the condition of derecognition was separately classified as "Factored trade receivables" which amounted to RMB1,344,597,000 (31 December 2008: RMB1,783,941,000).

As at the balance sheet date, aging analysis of trade receivables not overdue nor impaired and trade receivables overdue but not impaired were as follows:

| | 30 June 2009 | 31 December 2008 |
|---|---|---|
| Not overdue nor impaired | **3,696,996** | 2,387,433 |
| Overdue but not impaired within one year | **9,215,436** | 8,411,777 |
| | **12,912,432** | 10,799,210 |

### 4. Prepayments

Aging analysis of prepayments was as follows:

| | 30 June 2009 | | 31 December 2008 | |
|---|---|---|---|---|
| | Balance | Percentage | Balance | Percentage |
| Within one year | **306,436** | **100%** | 355,887 | 100% |

As at 30 June 2009, there was no outstanding amount due from shareholders holding 5% or more in the shares (31 December 2008: Nil).

There were no suppliers who accounted for 30% or more of the total amount of prepayments as at the end of the period.

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## VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

### 4. Prepayments (continued)

The prepayments due to the top five suppliers were as indicated:

| Name | Relationship with the Company | Amount due | Maturity | Reason |
|---|---|---|---|---|
| IRIS Telekom | Non-connected party | 32,234 | 1–12 months | Normal payment |
| Siemens Business Communication Systems | Non-connected party | 22,659 | 1–6 months | Normal payment |
| POLING ENTERPRISES LTD | Non-connected party | 19,459 | 1–6 months | Normal payment |
| Sadeven | Non-connected party | 12,298 | 1–12 months | Normal payment |
| EMC Information Systems International | Non-connected party | 7,693 | 1–6 months | Normal payment |
| Total | | 94,343 | | |

### 5. Other receivables

*The Group*

Aging analysis of other receivables was as follows:

| | **30 June 2009** | 31 December 2008 |
|---|---|---|
| Within one year | **865,238** | 662,704 |
| Between one to two years | **143,627** | 66,421 |
| Between two to three years | **51,347** | 19,852 |
| Over three years | **3,783** | 8,870 |
| | **1,063,995** | 757,847 |
| Less: bad debt provision for other receivables | **—** | — |
| | **1,063,995** | 757,847 |

| | **30 June 2009** | 31 December 2008 |
|---|---|---|
| Total amount of top five balances | **160,061** | 192,827 |
| As a percentage of total other receivables | **15.04%** | 25.44% |

As at 30 June 2009, there was no outstanding amount due from shareholders holding 5% or more in the shares.

As at the balance sheet date, all balances are overdue but not impaired.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

### 5. Other receivables (continued)

*The Company*

| | 30 June 2009 | 31 December 2008 |
|---|---|---|
| Within one year | **1,386,714** | 1,082,947 |
| Between one to two years | **252,053** | 228,207 |
| Between two to three years | **92,298** | 28,393 |
| Over three years | **124,130** | 102,630 |
| | **1,855,195** | 1,442,177 |
| Less: bad debt provision for other receivables | **—** | — |
| | **1,855,195** | 1,442,177 |

| | 30 June 2009 | 31 December 2008 |
|---|---|---|
| Total amount of top five balances | **1,822,060** | 1,176,885 |
| As a percentage of total other receivables | **98.21%** | 81.60% |

As at 30 June 2009, there was no outstanding amount due from shareholders holding 5% or more in the shares (31 December 2007: Nil).

As at the balance sheet date, all balances are overdue but not impaired.

### 6. Inventories

| | 30 June 2009 | 31 December 2008 |
|---|---|---|
| Raw materials | **3,196,450** | 2,166,948 |
| Materials under sub-contract processing | **144,605** | 89,550 |
| Work-in-progress | **1,121,707** | 745,131 |
| Finished goods | **2,871,913** | 2,337,993 |
| Contract works in progress | **4,634,269** | 4,108,578 |
| | **11,968,944** | 9,448,200 |
| Less: provision for impairment | **(574,939)** | (470,164) |
| Net value of inventories | **11,394,005** | 8,978,036 |

Please refer to Note VI.16 for details of movements in the provision for impairment of inventory for the period.

Inventory is stated at the lower of cost and net realisable value, where the cost exceeds the net realisable value, impairment is made and recognized as expenses.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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## VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

### 7. Construction contracts

| | **30 June 2009** | 31 December 2008 |
|---|---|---|
| Amount due from customers for contract work | **8,871,805** | 7,894,010 |
| Amount due to customers for contract work | **(3,582,481)** | (2,965,582) |
| | **5,289,324** | 4,928,428 |
| Contract costs incurred plus recognized profits/(losses) less anticipated losses to date | **33,954,879** | 32,018,956 |
| Less: progress billings | **(28,665,555)** | (27,090,528) |
| | **5,289,324** | 4,928,428 |

### 8. Available-for-sale financial assets

*The Group*

| | **30 June 2009** | 31 December 2008 |
|---|---|---|
| Available-for-sale financial assets | **252,310** | 251,148 |

| | **30 June 2009** | | | |
|---|---|---|---|---|
| | **Opening balance of the period** | **Additions** | **Reductions** | **Closing balance of the period** |
| 深圳市創新科技有限公司 | **5,000** | **—** | **—** | **5,000** |
| 北京中視聯數字系統有限公司 | **3,240** | **—** | **—** | **3,240** |
| Beijing Zhongxing Intelligent Transportation Systems Ltd. | **1,024** | **—** | **—** | **1,024** |
| 中移鼎訊通信股份有限公司 | **32,000** | **—** | **—** | **32,000** |
| 杭州中興發展有限公司 | **2,000** | **—** | **—** | **2,000** |
| 貴州艾瑪特信息超市項目開發有限公司 | **200** | **—** | **—** | **200** |
| 航天科技投資控股有限公司 | **201,734** | **—** | **—** | **201,734** |
| 網經科技(開曼)有限公司 | **3,430** | **—** | **—** | **3,430** |
| VENEZOLANA DE TELECOMUNICAIONES E.S.C.A. | **2,520** | **—** | **—** | **2,520** |
| PTIC-ZTE Telecom Technology Joint Stock Company | **—** | **1,162** | **—** | **1,162** |
| | **251,148** | **1,162** | **—** | **252,310** |

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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## VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

### 8. Available-for-sale financial assets (continued)

*The Company*

| | 30 June 2009 | 31 December 2008 |
|---|---|---|
| Available-for-sale financial assets | **243,198** | 243,198 |

| | 30 June 2009 | | | |
|---|---|---|---|---|
| | Opening balance of the period | Additions | Reductions | Closing balance of the period |
| 深圳市創新科技有限公司 | 5,000 | — | — | 5,000 |
| 北京中視聯數字系統有限公司 | 3,240 | — | — | 3,240 |
| Beijing Zhongxing Intelligent Transportation Systems Ltd. | 1,024 | — | — | 1,024 |
| 中移鼎訊通信股份有限公司 | 32,000 | — | — | 32,000 |
| 貴州艾瑪特信息超市項目開發有限公司 | 200 | — | — | 200 |
| 航天科技投資控股有限公司 | 201,734 | — | — | 201,734 |
| | 243,198 | — | — | 243,198 |

### 9. Long-term trade receivables

*The Group*

| | 30 June 2009 | 31 December 2008 |
|---|---|---|
| Receivables in instalment for service | **696,136** | 787,532 |
| Less: Bad debt provision for long-term trade receivables | **(139,491)** | (175,524) |
| | **556,645** | 612,008 |

Bad debt provision of long-term trade receivables was as follows:

| | Opening balance of the period | Provision for the period | Written back for the period | Written off for the period | Closing balance of the period |
|---|---|---|---|---|---|
| 30 June 2009 | **175,524** | **—** | **(36,033)** | **—** | **139,491** |
| 31 December 2008 | 181,388 | — | (5,864) | — | 175,524 |

Transfer of long-term trade receivables that did not satisfy the condition of derecognition was separately classified as "Factored long-term trade receivables" which amounted to RMB1,027,550,000 (31 December 2008: RMB753,568,000).

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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## VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

### 9. Long-term trade receivables (continued)

*The Company*

| | 30 June 2009 | 31 December 2008 |
|---|---|---|
| Receivables in instalment for service | **620,827** | 696,907 |
| Loans granted to its subsidiaries | **864,856** | 654,019 |
| Less: Bad debt provision for long-term trade receivables | **(104,923)** | (136,888) |
| | **1,380,760** | 1,214,038 |

The loans granted by the Company to its subsidiaries were interest-free, unsecured and had no fixed terms of repayment.

Bad debt provision of long-term trade receivables was as follows:

| | Opening balance of the period | Provision for the period | Written back for the period | Written off for the period | Closing balance of the period |
|---|---|---|---|---|---|
| 30 June 2009 | **136,888** | **—** | **(31,965)** | **—** | **104,923** |
| 31 December 2008 | 181,388 | — | (44,500) | — | 136,888 |

Transfer of long-term trade receivables that did not satisfy the condition of derecognition was separately classified as "Factored long-term trade receivables" which amounted to RMB1,152,550,000 (31 December 2008: RMB753,568,000).

### 10. Long-term equity investments

*The Group*

| | | 30 June 2009 | 31 December 2008 |
|---|---|---|---|
| Equity method | | | |
| Jointly-controlled entities | (1) | **2,255** | 2,255 |
| Associates | (2) | **183,602** | 166,178 |
| Less: impairment for long-term equity investment | | **—** | — |
| | | **185,857** | 168,433 |

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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## VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

### 10. Long-term equity investments (continued)

***The Group — 30 June 2009***

*(1) Joint-controlled entity*

| | Share of registered capital | Initial investment | Accumulated additional/ (reduced) investment cost | Equity adjustment: Changes in profit and loss during the period | Equity adjustment: Cash bonus during the period | Equity adjustment: Accumulated change in profit and loss | Provision for impairment: Additions for the period | Provision for impairment: Accumulated additions | Ending balance of the period |
|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | | | 3 | | 4 | 5=1+2+3+4 |
| Bestel Communications Ltd. | 50% | 2,050 | – | – | – | 205 | – | – | 2,255 |
| | | 2,050 | – | – | – | 205 | – | – | 2,255 |

*(2) Associates*

| | Share of registered capital | Initial investment | Accumulated additional/ (reduced) | Equity adjustment: Changes in profit and loss during the period | Equity adjustment: Cash bonus during the period | Equity adjustment: Accumulated change in profit and loss | Provision for impairment: Additions for the period | Provision for impairment: Accumulated additions | Ending balance of the period |
|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | | | 3 | | 4 | 5=1+2+3+4 |
| KAZNURTEL Limited Liability Company | 49% | 1,012 | – | – | – | 1,465 | – | – | 2,477 |
| 中興軟件技術(南昌)有限公司 | 30% | 4,500 | – | (2,532) | – | (3,634) | – | – | 866 |
| 國民技術股份有限公司 | 26.67% | 30,000 | (1,844) | 14,011 | – | 13,312 | – | – | 41,468 |
| Zhongxing Energy Company Limited | 23% | 60,000 | – | (4,423) | – | (8,920) | – | – | 51,080 |
| 思卓中興(杭州)科技有限公司 | 49% | 3,380 | (35) | (104) | – | (192) | – | – | 3,153 |
| Wuxi Kaier Technology Company Limited | 31% | 3,500 | – | (922) | – | 4,693 | – | – | 8,193 |
| Shenzhen Weigao Semiconductor Company Limited | 40% | 4,000 | – | (325) | – | (2,376) | – | – | 1,624 |
| Shenzhen Zhongxing Xinyu FPC Company Limited | 23% | 2,500 | – | 205 | – | 3,779 | – | – | 6,279 |
| Shenzhen Smart Electronics Company Limited | 30% | 3,335 | 2,006 | (1,394) | – | 7,937 | – | – | 13,278 |
| 深圳市聚飛光電有限公司 | 22.5% | 4,500 | – | 5,301 | – | 16,114 | – | – | 20,614 |
| 深圳市鼎力網絡有限公司 | 35% | 3,500 | – | (579) | – | (1,123) | – | – | 2,377 |
| 深圳市富德康電子有限公司 | 30% | 1,800 | – | 354 | – | 2,378 | – | – | 4,178 |
| Shenzhen Decang Technology Company Limited | 30% | 1,000 | – | 364 | – | 14,792 | – | – | 15,792 |
| WANAAG Communications Limited | 45% | 351 | – | – | – | (212) | – | – | 139 |
| 北京中鼎盛安科技有限公司 | 49% | 490 | – | (205) | – | (616) | – | – | (126) |
| 南昌興飛科技有限公司 | 30% | 4,500 | – | (209) | – | (209) | – | – | 4,291 |
| Shenzhen Hongde Battery Company Limited | 20% | 3,000 | – | 1,002 | – | 1,002 | – | – | 4,002 |
| 上海泰捷通信技術有限公司 | 40% | 4,000 | – | (83) | – | (83) | – | – | 3,917 |
| | | 135,368 | 127 | 10,461 | – | 48,107 | – | – | 183,602 |

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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## VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

### 10. Long-term equity investments (continued)

***The Group — 30 June 2009 (continued)***

Major financial information of jointly-controlled entities and associates:

| | Place of registration | Principal activities | Registered capital | Percentage of the Group's shareholding | Percentage of the Group's voting rights |
|---|---|---|---|---|---|
| **Jointly-controlled entity** | | | | | |
| Bestel Communications Ltd. | Republic of Cyprus | Information technology | Cyprus pounds 600,000 | 50% | 50% |
| **Associates** | | | | | |
| 深圳市富德康電子有限公司 | China | Machinery and electronic equipment wholesale trade | RMB6,000,000 | 30% | 30% |
| 國民技術股份有限公司 (Note1) | China | Computer and related equipment manufacturing industry | RMB81,600,000 | 26.67% | 26.67% |
| KAZNURTEL Limited Liability Company | Kazakhstan | Computer and related equipment manufacturing industry | USD3,000,000 | 49% | 49% |
| Wuxi Kaier Technology Company Limited | China | Machinery equipment | RMB11,332,729 | 30.88% | 30.88% |
| Shenzhen Zhongxing Xinyu FPC Company Limited | China | Machinery equipment | RMB11,000,000 | 22.73% | 22.73% |
| Shenzhen Weigao Semiconductor Company Limited | China | Machinery equipment | RMB10,000,000 | 40% | 40% |
| Shenzhen Decang Technology Company Limited | China | Machinery equipment | RMB2,500,000 | 30% | 30% |
| 深圳市聚飛光電有限公司 (Note 2) | China | Machinery equipment | RMB44,000,000 | 22.50% | 22.50% |
| Shenzhen Smart Electronics Company Limited | China | Machinery equipment | HKD30,000,000 | 30% | 30% |
| 深圳市鼎力網絡有限公司 | China | Communications equipment manufacturing | RMB10,000,000 | 35% | 35% |
| WANAAG Communications Limited | Hong Kong | Communication services | USD100,000 | 45% | 45% |
| Zhongxing Energy Company Limited | China | Energy industry | RMB1,290,000,000 | 23.26% | 23.26% |
| 中興軟件技術(南昌)有限公司 | China | Computer application services | RMB15,000,000 | 30% | 30% |
| 北京中鼎盛安科技有限公司 | China | Computer application services | RMB1,000,000 | 49% | 49% |
| 南昌興飛科技有限公司 | China | Communications industry | RMB15,000,000 | 30% | 30% |
| 思卓中興(杭州)科技有限公司 | China | Sales and R&D of communications equipment | RMB1,000,000 | 49% | 49% |
| Shenzhen Hongde Battery Company Limited | China | Communications equipment manufacturing | RMB15,000,000 | 20% | 20% |
| 上海泰捷通信技術有限公司 | China | Communications and related industry | RMB10,000,000 | 40% | 40% |

Note 1: The former ZTE IC Design Company Limited was renamed 國民技術股份有限公司 and its registered capital was increased from RMB74,000,000 to RMB81,600,000. The percentage of the Group's shareholdings and voting rights was changed from 29.4% to 26.67%.

Note 2: The registered capital of 深圳市聚飛光電有限公司 was increased from RMB20,000,000 to RMB44,000,000.

# NOTES TO FINANCIAL STATEMENTS

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## VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

### 10. Long-term equity investments (continued)

***The Group — 30 June 2009 (continued)***

Major financial information of jointly-controlled entities and associates: (continued)

| | 30 June 2009 Total assets | 30 June 2009 Total liabilities | Six months ended 30 June 2009 Operating revenue | Six months ended 30 June 2009 Net profit/ (loss) |
|---|---|---|---|---|
| **Jointly-controlled entities** | | | | |
| Bestel Communications Ltd. | 4,606 | 96 | — | — |
| **Associates** | | | | |
| 深圳市富德康電子有限公司 | 36,113 | 28,280 | 26,470 | 1,179 |
| 國民技術股份有限公司 | 235,177 | 94,641 | 158,887 | 35,628 |
| KAZNURTEL Limited Liability Company | 7,164 | 2,109 | — | — |
| Wuxi Kaier Technology Company Limited | 115,127 | 89,714 | 72,190 | (2,987) |
| Shenzhen Zhongxing Xinyu FPC Company Limited | 100,761 | 73,125 | 45,473 | 904 |
| Shenzhen Weigao Semiconductor Company Limited | 14,503 | 10,443 | 12,847 | (812) |
| Shenzhen Decang Technology Company Limited | 129,347 | 78,198 | 94,445 | 1,212 |
| 深圳市聚飛光電有限公司 | 148,762 | 57,997 | 79,888 | 23,561 |
| Shenzhen Smart Electronics Company Limited | 49,008 | 4,630 | 63,506 | (4,647) |
| 深圳市鼎力網絡有限公司 | 7,041 | 248 | 315 | (1,655) |
| WANAAG Communications Limited | 1,408 | 2,120 | — | — |
| Zhongxing Energy Company Limited | 229,910 | 1,580 | 3,382 | (19,014) |
| 中興軟件技術(南昌)有限公司 | 65,427 | 84,183 | 3,603 | (8,441) |
| 北京中鼎盛安科技有限公司 | 228 | 486 | — | (419) |
| 南昌興飛科技有限公司 | 47,100 | 33,237 | 38,333 | (697) |
| 思卓中興(杭州)科技有限公司 | 6,446 | — | — | (212) |
| Shenzhen Hongde Battery Company Limited | 84,344 | 64,332 | 47,480 | 5,012 |
| 上海泰捷通信技術有限公司 | 9,795 | 4 | — | (209) |

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
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## VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

### 10. Long-term equity investments (continued)

***The Group — 31 December 2008***

*(1) Jointly-controlled entity*

| | | | | Equity adjustment | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Provision for impairment | | |
| | Share of registered capital | Initial investment | Accumulated additional/ (reduced) investment cost | Changes in profit and loss during the period | Cash bonus during the period | Accumulated change in profit and loss | Additions for the period | Accumulated additions | Ending balance of the period |
| | | 1 | 2 | | | 3 | | 4 | 5=1+2+3+4 |
| Bestel Communications Ltd. | 50% | 2,050 | — | — | — | 205 | — | — | 2,255 |
| | | 2,050 | — | — | — | 205 | — | — | 2,255 |

*(2) Associates*

| | | | | Equity adjustment | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Provision for impairment | | |
| | Share of registered capital | Initial investment | Accumulated additional/ (reduced) investment cost | Changes in profit and loss during the period | Cash bonus during the period | Accumulated change in profit and loss | Additions for the period | Accumulated additions | Ending balance of the period |
| | | 1 | 2 | | | 3 | | 4 | 5=1+2+3+4 |
| 深圳市富德康電子有限公司 | 30% | 1,800 | — | 1,096 | — | 2,024 | — | — | 3,824 |
| ZTE IC Design Company Limited | 29.4% | 30,000 | (1,844) | 9,658 | — | (699) | — | — | 27,457 |
| KAZNURTEL Limited Liability Company | 49% | 1,012 | — | — | — | 1,465 | — | — | 2,477 |
| Wuxi Kaier Technology Company Limited | 30.88% | 3,500 | — | 1,459 | — | 5,615 | — | — | 9,115 |
| Shenzhen Zhongxing Xinyu FPC Company Limited | 22.73% | 2,500 | — | 782 | (909) | 3,574 | — | — | 6,074 |
| Shenzhen Weigao Semiconductor Company Limited | 40% | 4,000 | — | (625) | — | (2,051) | — | — | 1,949 |
| Shenzhen Decang Technology Company Limited | 30% | 1,000 | — | 2,209 | — | 14,428 | — | — | 15,428 |
| 深圳市聚飛光電有限公司 | 22.5% | 4,500 | — | 7,844 | (1,125) | 10,813 | — | — | 15,313 |
| 中興軟件技術(南昌)有限公司 | 30% | 4,500 | — | (10) | — | (1,102) | — | — | 3,398 |
| Shenzhen Smart Electronics Company Limited | 30% | 3,335 | 2,006 | 5,513 | — | 9,332 | — | — | 14,673 |
| 深圳市鼎力網絡有限公司 | 35% | 3,500 | — | 96 | — | (543) | — | — | 2,957 |
| WANAAG Communications Limited | 45% | 351 | — | 46 | — | (212) | — | — | 139 |
| Zhongxing Energy Company Limited | 23.26% | 60,000 | — | (4,497) | — | (4,497) | — | — | 55,503 |
| 思卓中興(杭州)科技有限公司 | 49% | 3,380 | — | (88) | — | (88) | — | — | 3,292 |
| 北京中鼎盛安科技有限公司 | 49% | 490 | — | (411) | — | (411) | — | — | 79 |
| 南昌興飛科技有限公司 | 30% | 4,500 | — | — | — | — | — | — | 4,500 |
| | | 128,368 | 162 | 23,072 | (2,034) | 37,648 | — | — | 166,178 |

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## VHF. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

### 10. Long-term equity investments (continued)

***The Group — 31 December 2008 (continued)***

Major financial information of jointly-controlled entities and associates:

| | Place of registration | Principal activities | Registered capital | Percentage of shareholding | Percentage of the right to vote |
|---|---|---|---|---|---|
| **Jointly-controlled entity** | | | | | |
| Bestel Communications Ltd | Republic of Cyprus | IT industry | Cyrus pounds 600,000 | 50% | 50% |
| **Associates** | | | | | |
| 深圳市富德康電子有限公司 | China | Machinery and electronic equipment wholesale trade | RMB6,000,000 | 30% | 30% |
| ZTE IC Design Company Limited | China | Computer and related equipment manufacturing industry | RMB74,000,000 | 29.4% | 29.4% |
| KAZNURTEL Limited Liability Company | Kazakhstan | Computer and related equipment manufacturing industry | USD3,000,000 | 49% | 49% |
| Wuxi Kaier Technology Company Limited | China | Machinery equipment | RMB11,332,729 | 30.88% | 30.88% |
| Shenzhen Zhongxing Xinyu FPC Company Limited | China | Machinery equipment | RMB11,000,000 | 22.73% | 22.73% |
| Shenzhen Weigao Semiconductor Company Limited | China | Machinery equipment | RMB10,000,000 | 40% | 40% |
| Shenzhen Decang Technology Company Limited | China | Machinery equipment | RMB2,500,000 | 30% | 30% |
| 深圳市聚飛光電有限公司 | China | Machinery equipment | RMB20,000,000 | 22.5% | 22.5% |
| 中興軟件技術(南昌)有限公司 | China | Computer Application Services | RMB15,000,000 | 30% | 30% |
| Shenzhen Smart Electronics Company Limited | China | Machinery equipment | HKD30,000,000 | 30% | 30% |
| 深圳市鼎力網絡有限公司 | China | Communications Equipment manufacturing | RMB10,000,000 | 35% | 35% |
| WANAAG Communications Limited | Hong Kong | Communication Services | USD100,000 | 45% | 45% |
| Zhongxing Energy Company Limited | China | Energy industry | RMB1,290,000,000 | 23.26% | 23.26% |
| 思卓中興(杭州)科技有限公司 | China | Sales and R&D of Communications equipment | USD1,000,000 | 49% | 49% |
| 北京中鼎盛安科技有限公司 | China | Computer Application Services | RMB1,000,000 | 49% | 49% |
| 南昌興飛科技有限公司 | China | Communications industry | RMB15,000,000 | 30% | 30% |

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

### 10. Long-term equity investments (continued)

***The Group — 31 December 2008 (continued)***

Major financial information of jointly-controlled entities and associates: (continued)

| | End of 2008 Total assets | End of 2008 Total liabilities | 2008 Operating income | 2008 Net profit/ (loss) |
|---|---|---|---|---|
| **Jointly-controlled entity** | | | | |
| Bestel Communications Ltd | 4,606 | 96 | — | — |
| **Associates** | | | | |
| 深圳市富德康電子有限公司 | 45,016 | 32,269 | 57,491 | 6,746 |
| ZTE IC Design Company Limited | 166,900 | 81,699 | 218,737 | 21,979 |
| KAZNURTEL Limited Liability Company | 7,164 | 2,109 | — | — |
| Wuxi Kaier Technology Company Limited | 97,603 | 68,695 | 239,657 | 4,724 |
| Shenzhen Zhongxing Xinyu FPC Company Limited | 98,937 | 72,206 | 97,777 | 6,351 |
| Shenzhen Weigao Semiconductor Company Limited | 16,579 | 11,706 | 62,227 | (1,562) |
| Shenzhen Decang Technology Company Limited | 100,426 | 48,989 | 186,970 | 6,441 |
| 深圳市聚飛光電有限公司 | 108,632 | 40,122 | 117,728 | 34,864 |
| 中興軟件技術(南昌)有限公司 | 68,467 | 78,782 | 37,118 | (32) |
| Shenzhen Smart Electronics Company Limited | 59,865 | 10,839 | 220,871 | 18,267 |
| 深圳市鼎力網絡有限公司 | 8,765 | 318 | 4,224 | 274 |
| WANAAG Communications Limited | 1,475 | 2,308 | 890 | 103 |
| Zhongxing Energy Company Limited | 242,246 | 3,587 | — | (19,331) |
| 北京中鼎盛安科技有限公司 | 311 | 151 | — | (839) |
| 南昌興飛科技有限公司 | 4,500 | — | — | — |
| 思卓中興(杭州)科技有限公司 | 6,921 | 270 | — | (180) |

***The Company***

| | | 30 June 2009 | 31 December 2008 |
|---|---|---|---|
| Cost method | | | |
| Subsidiaries | (1) | **1,892,572** | 1,768,698 |
| Equity method | | | |
| Associates | (2) | **99,045** | 92,127 |
| Less: impairment for long-term equity investment | (3) | **(113,065)** | (113,065) |
| | | **1,878,552** | 1,747,760 |

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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## VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

### 10. Long-term equity investments (continued)

***The Company — 30 June 2009***

*(1) Subsidiaries*

| | Initial amount | Opening balance for the period | Additions during the period | Reductions during the period | Balance at the end of the period |
|---|---|---|---|---|---|
| ZTE Kangxun Telecom Company Limited. | 45,000 | 45,000 | — | — | 45,000 |
| ZTE (USA) Inc. | 5,381 | 5,381 | — | — | 5,381 |
| Wuxi Zhongxing Optoelectronics Technologies Company Limited | 3,920 | 3,920 | — | — | 3,920 |
| ZTE (H.K.) Limited | 53,200 | 449,364 | — | — | 449,364 |
| Anhui Wantong Postal and Telecommunications Company Limited | 15,698 | 15,698 | — | — | 15,698 |
| Telrise (Cayman) Telecom Ltd. | 15,770 | 21,165 | — | — | 21,165 |
| Shenzhen Guoxin Electronics Development Company Limited | 29,700 | 29,700 | — | — | 29,700 |
| Congo-Chine Telecom S.A.R.L | 55,800 | 55,800 | — | — | 55,800 |
| Yangzhou Zhongxing Mobile Telecom Company Limited | 3,900 | 3,900 | — | — | 3,900 |
| Shenzhen Zhongxing Mobile Technology Company Limited | 45,799 | 45,799 | — | — | 45,799 |
| ZTEsoft Technology Company Limited | 24,282 | 23,982 | — | — | 23,982 |
| ZTE (UK) Ltd. | 4,533 | 5,286 | — | — | 5,286 |
| ZTE Do Brasil LTDA | 10,058 | 18,573 | — | — | 18,573 |
| Shenzhen ZTE Software Company Limited. | 38,609 | 36,500 | — | — | 36,500 |
| ZTE Integration Telecom Ltd. | 41,250 | 41,261 | — | — | 41,261 |
| ZTE Wistron Telecom AB | 2,445 | 3,137 | — | — | 3,137 |
| ZTE-Communication Technologies, Ltd. | 4,188 | 4,188 | — | — | 4,188 |
| ZTE Corporation Mexico S. DE R. L DE C.V. | 41 | 41 | — | — | 41 |
| Shenzhen Changfei Investment Company Limited | 15,300 | 15,300 | — | 126 | 15,174 |
| Zhongxing Telecom Pakistan (Private) Ltd. | 2,971 | 2,971 | — | — | 2,971 |
| Guangdong New Pivot Technology & Service Company Limited | 13,500 | 13,500 | — | — | 13,500 |
| Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited | 45,000 | 45,000 | — | — | 45,000 |
| Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited | 5,100 | 5,100 | — | — | 5,100 |
| ZTE Holdings (Thailand) Company Limited. | 10 | 10 | — | — | 10 |
| ZTE (Thailand) Company Limited. | 2,044 | 5,040 | — | — | 5,040 |
| Shenzhen Zhongxing Special Equipment Company Limited | 540 | 540 | — | — | 540 |
| ZTE Telecom India Private Ltd. | 1,654 | 196,826 | — | — | 196,826 |
| ZTE Romania S.R.L. | 827 | 827 | — | — | 827 |
| ZTE (Malaysia) Corporation SDN.BHD. | 496 | 496 | — | — | 496 |
| ZiMax (Cayman) Holding Ltd. | 45,485 | 45,485 | — | — | 45,485 |
| Xi'an Zhongxing Jing Cheng Communication Company Limited | 11,396 | 11,396 | — | — | 11,396 |
| Closed Joint Stock Company TK Mobile | 4,258 | 4,258 | — | — | 4,258 |
| PT. ZTE Indonesia | 1,654 | 1,654 | — | — | 1,654 |
| Shenzhen Zhongxing Liwei Technology Company Limited | 6,000 | 6,000 | — | — | 6,000 |
| 深圳市中聯成電子發展有限公司 | 600 | 600 | — | — | 600 |
| 深圳市興意達通訊技術有限公司 | 5,000 | 5,000 | — | — | 5,000 |
| Xi'an Zhongxingxin Software Company Limited | 600,000 | 600,000 | — | — | 600,000 |
| ZTEICT Technology Company Limited | 24,000 | — | 24,000 | — | 24,000 |
| ZTE (Hangzhou) Company Limited | 100,000 | — | 100,000 | — | 100,000 |
| | | 1,768,698 | 124,000 | 126 | 1,892,572 |

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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## VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

### 10. Long-term equity investments (continued)

***The Company — 30 June 2009 (continued)***

*(2) Associates*

| | | | | Equity adjustment | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Provision for impairment | | |
| | Share of registered capital | Initial investment | Accumulated additional/ (reduced) | Changes in profit and loss during the period | Cash bonus during the period | Accumulated change in profit and loss | Additions for the period | Accumulated additions | Closing balance of the period |
| | | 1 | 2 | | | 3 | | 4 | 5=1+2+3+4 |
| KAZNURTEL Limited Liability Company | 49.00% | 1,012 | – | – | – | 1,465 | – | – | 2,477 |
| 中興軟件技術(南昌)有限公司 | 30.00% | 4,500 | – | (2,532) | – | (3,634) | – | – | 866 |
| 國民技術股份有限公司 | 26.67% | 30,000 | (1,844) | 14,011 | – | 13,312 | – | – | 41,468 |
| Zhongxing Energy Company Limited | 23.26% | 60,000 | – | (4,423) | – | (8,919) | – | – | 51,081 |
| 思卓中興(杭州)科技有限公司 | 49.00% | 3,380 | (35) | (104) | – | (192) | – | – | 3,153 |
| | | 98,892 | (1,879) | 6,952 | – | 2,032 | – | – | 99,045 |

*(3) Impairment for Long-term equity investment*

| | Opening and closing balance of the period |
|---|---|
| ZTE (USA) Inc. | 5,381 |
| Telrise (Cayman) Telecom Ltd. | 12,970 |
| Shenzhen Guoxin Electronics Development Company Limited | 23,767 |
| Yangzhou Zhongxing Mobile Telecom Company Limited | 3,900 |
| Shenzhen Zhongxing Mobile Technology Company Limited | 17,657 |
| ZTE(UK) Ltd. | 4,533 |
| ZTE Do Brasil LTDA | 10,059 |
| ZTE Integration Telecom Ltd. | 4,591 |
| ZTE Wistron Telecom AB | 2,030 |
| ZTE Corporation Mexico S. DE R. L DE C.V. | 41 |
| Zhongxing Telecom Pakistan (Private) Ltd. | 2,971 |
| Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited | 9,656 |
| ZTE Holdings (Thailand) Company Limited. | 10 |
| ZTE (Thailand) Company Limited. | 205 |
| ZTE Telecom India Private Ltd. | 1,654 |
| ZTE Romania S.R.L. | 827 |
| ZTE (Malaysia) Corporation SDN.BHD. | 496 |
| ZiMax (Cayman) Holding Ltd. | 12,317 |
| | 113,065 |

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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## VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

### 10. Long-term equity investments (continued)

***The Company — 31 December 2008***

*(1) Subsidiaries*

| | Initial amount | Opening balance for the period | Additions during the period | Reductions during the period | Balance at the end of the period |
|---|---|---|---|---|---|
| ZTE Kangxun Telecom Company Limited. | 45,000 | 45,000 | — | — | 45,000 |
| ZTE (USA) Inc. | 5,381 | 5,381 | — | — | 5,381 |
| Wuxi Zhongxing Optoelectronics Technologies Company Limited | 3,920 | 3,920 | — | — | 3,920 |
| ZTE (H.K.) Limited | 53,200 | 53,200 | 396,164 | — | 449,364 |
| Anhui Wantong Postal and Telecommunications Company Limited | 15,698 | 15,698 | — | — | 15,698 |
| Telrise (Cayman) Telecom Ltd. | 15,770 | 21,165 | — | — | 21,165 |
| Shenzhen Guoxin Electronics Development Company Limited | 29,700 | 29,700 | — | — | 29,700 |
| Congo-Chine Telecom S.A.R.L | 55,800 | 55,800 | — | — | 55,800 |
| Yangzhou Zhongxing Mobile Telecom Company Limited | 3,900 | 3,900 | — | — | 3,900 |
| Shenzhen Zhongxing Mobile Technology Company Limited | 45,799 | 45,799 | — | — | 45,799 |
| ZTEsoft Technology Company Limited | 24,282 | 23,982 | — | — | 23,982 |
| ZTE (UK) Ltd. | 4,533 | 5,286 | — | — | 5,286 |
| ZTE Do Brasil LTDA | 10,058 | 18,573 | — | — | 18,573 |
| Shenzhen Zhongxing Software Company Limited | 38,609 | 36,500 | — | — | 36,500 |
| ZTE Integration Telecom Ltd. | 41,250 | 41,250 | 11 | — | 41,261 |
| ZTE Wistron Telecom AB | 2,445 | 3,137 | — | — | 3,137 |
| ZTE-Communication Technologies, Ltd. | 4,188 | 4,188 | — | — | 4,188 |
| ZTE Corporation Mexico S. DE R. L DE C.V. | 41 | 41 | — | — | 41 |
| Shenzhen Changfei Investment Company Limited | 15,300 | 15,300 | — | — | 15,300 |
| Zhongxing Telecom Pakistan (Private) Ltd. | 2,971 | 2,971 | — | — | 2,971 |
| Guangdong New Pivot Technology & Service Company Limited | 13,500 | 13,500 | — | — | 13,500 |
| Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited | 45,000 | 45,000 | — | — | 45,000 |
| Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited | 5,100 | 5,100 | — | — | 5,100 |
| ZTE Holdings (Thailand) Company Limited. | 10 | 10 | — | — | 10 |
| ZTE (Thailand) Company Limited. | 2,044 | 5,040 | — | — | 5,040 |
| Shenzhen Special Equipment Company Limited | 540 | 540 | — | — | 540 |
| ZTE Telecom India Private Ltd. | 1,654 | 1,654 | 195,172 | — | 196,826 |
| ZTE Romania S.R.L. | 827 | 827 | — | — | 827 |
| ZTE (Malaysia) Corporation SDN.BHD. | 496 | 496 | — | — | 496 |
| ZiMax (Cayman) Holding Ltd. | 45,485 | 45,485 | — | — | 45,485 |
| Xi'an Zhongxing Jing Cheng Communication Company Limited. | 11,396 | 11,396 | — | — | 11,396 |
| Closed Joint Stock Company TK Mobile | 4,258 | 4,258 | — | — | 4,258 |
| PT. ZTE Indonesia | 1,654 | 1,654 | — | — | 1,654 |
| Shenzhen Zhongxing Liwei Technology Company Limited | 6,000 | 6,000 | — | — | 6,000 |
| 深圳市中聯成電子發展有限公司 | 600 | 600 | — | — | 600 |
| 深圳市興意達通訊技術有限公司 | 5,000 | 5,000 | — | — | 5,000 |
| Xi'an Zhongxingxin Software Company Limited | 600,000 | — | 600,000 | — | 600,000 |
| | | 577,351 | 1,191,347 | — | 1,768,698 |

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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## VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

### 10. Long-term equity investments (continued)

***The Company — 31 December 2008 (continued)***

*(2) Associates*

| | | | Equity adjustment | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Provision for impairment | | |
| | Share of registered capital | Initial investment | Accumulated additional/ (reduced) investment cost | Changes in profit and loss during the period | Cash bonus during the period | Accumulated change in profit and loss | Additions for the period | Accumulated additions | Closing balance of the period |
| | | 1 | 2 | | | 3 | | 4 | 5=1+2+3+4 |
| ZTE IC Design Company Limited | 29.4% | 30,000 | (1,844) | 9,658 | – | (699) | – | – | 27,457 |
| KAZNURTEL Limited Liability Company | 49% | 1,012 | – | – | – | 1,465 | – | – | 2,477 |
| 中興軟件技術(南昌)有限公司 | 30% | 4,500 | – | (10) | – | (1,102) | – | – | 3,398 |
| Zhongxing Energy Company Limited | 23.26% | 60,000 | – | (4,497) | – | (4,497) | – | – | 55,503 |
| 思卓中興(杭州)科技有限公司 | 49% | 3,380 | – | (88) | – | (88) | – | – | 3,292 |
| | | 98,892 | (1,844) | 5,063 | – | (4,921) | – | – | 92,127 |

*(3) Impairment for Long-term equity investment*

| | Opening and closing balance of the period |
|---|---|
| ZTE (USA) Inc. | 5,381 |
| Telrise (Cayman) Telecom Ltd. | 12,970 |
| Shenzhen Guoxin Electronics Development Company Limited | 23,767 |
| Yangzhou Zhongxing Mobile Telecom Company Limited | 3,900 |
| Shenzhen Zhongxing Mobile Technology Company Limited | 17,657 |
| ZTE(UK) Ltd. | 4,533 |
| ZTE Do Brasil LTDA | 10,059 |
| Shenzhen ZTE Integration Telecom Limited | 4,591 |
| ZTE Wistron Telecom AB | 2,030 |
| ZTE Corporation Mexico S. DE R. L DE C.V. | 41 |
| Zhongxing Telecom Pakistan (Private) Ltd. | 2,971 |
| Shenzhen Zhongxing Equipment Technology & Service Company Limited | 9,656 |
| ZTE Holdings (Thailand) Company Limited. | 10 |
| ZTE (Thailand) Company Limited. | 205 |
| ZTE Telecom India Private Ltd. | 1,654 |
| ZTE Romania S.R.L. | 827 |
| ZTE (Malaysia) Corporation SDN.BHD. | 496 |
| ZiMax (Cayman) Holding Ltd. | 12,317 |
| | 113,065 |

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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## VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

### 11. Fixed assets

| | Buildings | Electronic equipment | Machinery equipment | Motor vehicles | Other equipment | Total |
|---|---|---|---|---|---|---|
| Cost: | | | | | | |
| Opening balance | 2,066,589 | 2,142,344 | 1,963,786 | 281,730 | 34,340 | 6,488,789 |
| Addition | 1,280 | 375,227 | 103,488 | 15,235 | 4,100 | 499,330 |
| Transferred from Construction in progress | — | 4,530 | 102,673 | — | — | 107,203 |
| Retirements and disposals | — | (57,760) | (36,970) | (8,903) | (1,151) | (104,784) |
| Exchange realignments | (112) | 443 | (1,606) | 137 | 820 | (318) |
| Closing balance | 2,067,757 | 2,464,784 | 2,131,371 | 288,199 | 38,109 | 6,990,220 |
| Accumulated depreciation: | | | | | | |
| Opening balance | 312,506 | 1,043,119 | 820,718 | 102,951 | 19,417 | 2,298,711 |
| Provision | 30,683 | 157,106 | 148,465 | 9,781 | 5,115 | 351,150 |
| Retirements and disposals | — | (53,844) | (22,099) | (6,568) | (633) | (83,144) |
| Exchange realignments | (13) | 272 | (942) | 44 | 501 | (138) |
| Closing balance | 343,176 | 1,146,653 | 946,142 | 106,208 | 24,400 | 2,566,579 |
| Provision for impairment: | | | | | | |
| Opening and closing balance | 7,708 | 77,819 | 1,475 | — | — | 87,002 |
| Fixed assets, net | | | | | | |
| Closing balance | 1,716,873 | 1,240,312 | 1,183,754 | 181,991 | 13,709 | 4,336,639 |
| Opening balance | 1,746,375 | 1,021,406 | 1,141,593 | 178,779 | 14,923 | 4,103,076 |

### 12. Construction in progress

| Name of construction project | Budget | Opening balance of the period | Additions | Transferred to fixed assets | Closing balance of the period | Source of funds | Completion status of project |
|---|---|---|---|---|---|---|---|
| Liuxiandong ZTE Industrial Park | 1,000,000 | 151,726 | 132,291 | — | 284,017 | Internal resources | 86.30% |
| R&D centre and training centre | Nil | 139,974 | 24,683 | — | 164,657 | Internal resources | |
| Xi'an Technology Park Phase II | Nil | 22,450 | 3,435 | — | 25,885 | Internal resources | |
| Equipment installation project | Nil | 446,142 | 9,892 | (95,810) | 360,224 | Internal resources | |
| Others | Nil | 56,794 | 15,222 | (11,393) | 60,623 | Internal resources | |
| | | 817,086 | 185,523 | (107,203) | 895,406 | | |

### 13. Intangible assets

| | Software | Technology know-how | Land use rights | Operating concession | Total |
|---|---|---|---|---|---|
| Cost: | | | | | |
| Opening balance | 337,632 | 5,032 | 480,273 | 94,530 | 917,467 |
| Additions | 9,993 | — | 510 | — | 10,503 |
| Retirements and disposals | (1,378) | — | (102) | (15) | (1,495) |
| Closing balance | 346,247 | 5,032 | 480,681 | 94,515 | 926,475 |
| Accumulated amortization: | | | | | |
| Opening balance | 249,754 | 1,454 | 1,821 | 48,398 | 301,427 |
| Amortization during the period | 27,818 | 358 | 27,741 | 1,608 | 57,525 |
| Retirements and disposals | (1,319) | — | — | (10) | (1,329) |
| Closing balance | 276,253 | 1,812 | 29,562 | 49,996 | 357,623 |
| Provision for impairment: | | | | | |
| Opening and closing balance | 12,884 | — | 6,322 | 7,750 | 26,956 |
| Net: | | | | | |
| Closing balance | 57,110 | 3,220 | 444,797 | 36,769 | 541,896 |
| Opening balance | 74,994 | 3,578 | 472,130 | 38,382 | 589,084 |

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
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## VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

### 14. Development costs

| | 30 June 2009 | 31 December 2008 |
|---|---|---|
| System products | 527,286 | 379,774 |
| Handsets | 148,143 | 96,246 |
| | 675,429 | 476,020 |

Total research and development cost for the period:

| | Six months ended 30 June 2009 | Six months ended 30 June 2008 |
|---|---|---|
| Recognized as expenses | 2,606,448 | 1,647,898 |
| Capitalised as development cost | 242,762 | 126,225 |

### 15. Deferred tax assets

| | Unrealized profit | Provision for maintenance | Tax losses | Overseas tax | Inventories provision | Others | Total |
|---|---|---|---|---|---|---|---|
| Opening balance | 42,348 | 25,557 | 84,958 | 169,406 | 72,835 | 5,161 | 400,265 |
| Deferred tax credited to the income statement during the period | (18,739) | 1,075 | — | 23,111 | 8,724 | (2,149) | 12,022 |
| Closing balance | 23,609 | 26,632 | 84,958 | 192,517 | 81,559 | 3,012 | 412,287 |

### 16. Provision for impairment of assets

| | Opening balance of the period | Provision for the period | Written back for the period | Written off for the period | Closing balance of the period |
|---|---|---|---|---|---|
| Provision of bad debts | 1,702,254 | 377,187 | (36,033) | (118,169) | 1,925,239 |
| Provision for impairment of inventories | 470,164 | 114,748 | (9,973) | — | 574,939 |
| Provision for impairment of fixed assets | 87,002 | — | — | — | 87,002 |
| Provision for impairment of intangible assets | 26,956 | — | — | — | 26,956 |
| | 2,286,376 | 491,935 | (46,006) | (118,169) | 2,614,136 |

The provision for inventory impairment was reversed after the inventory in question had been sold.

Bad-debt provision was written off as certain trade receivables for the period were confirmed as bad debt and bad debt provision in respect of such trade receiveables was also written off.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

### 17. Short-term loans

| | | 30 June 2009 | | 31 December 2008 | | |
|---|---|---|---|---|---|---|
| | | **Original currency** | **RMB equivalent** | Original currency | RMB equivalent | |
| Credit loans | RMB | **1,678,000** | **1,678,000** | 343,000 | 343,000 | |
| | USD | **327,000** | **2,234,031** | 384,546 | 2,628,218 | |
| | INR | **656,000** | **92,982** | — | — | |
| Guarantee loans | RMB | **20,000** | **20,000** | — | — | Note 1 |
| | RMB | **5,000** | **5,000** | — | — | Note 2 |
| Pledged loans | RMB | **1,110,000** | **1,110,000** | — | — | Note 3 |
| | USD | **—** | **—** | 127,117 | 868,794 | |
| Others | | **44,500** | **44,500** | | 42,467 | |
| | | | **5,184,513** | | 3,882,479 | |

The interest rate of the short-term loans was 2%–12.9%.

Note 1: The guarantor was Shenzhen Kangquan Electromechanical Company Limited.

Note 2: The guarantor was ZTEsoft Technology Company Limited.

Note 3: Secured by bills receivable of RMB700 million owed by the Company to ZTE Kangxun Telecom Company Limited, bills receivable of RMB400 million owed by the Company to Shenzhen Zhongxing Software Company Limited and bills receivable of RMB10 million owed by ZTE Kangxun Telecom Company Limited to Shenzhen Lead Communication Equipment Company Limited.

### 18. Other non-current liabilities

| | **30 June 2009** | 31 December 2008 |
|---|---|---|
| Long-term financial guarantee contracts | **3,689** | 3,689 |
| Provision for retirement benefits | **36,063** | 36,063 |
| | **39,752** | 39,752 |

In 2006, the Group provided a financial guarantee with a maximum amount of RMB50 million in favour of its customer. This guarantee will expire in September 2018. The financial guarantee contract was accounted for as financial liability and was initially recognised at its fair value of RMB3,689,000.

### 19. Bills payable

| | **30 June 2009** | 31 December 2008 |
|---|---|---|
| Bank acceptance bills | **5,462,933** | 3,704,089 |
| Commercial acceptance bills | **4,057,020** | 2,613,970 |
| | **9,519,953** | 6,318,059 |

As at 30 June 2009, RMB146,884,000 was due to shareholders or related parties holding 5% or more in the shares (31 December 2008: Nil). Please refer to Notes VIII "The relationships and transactions among related parties".

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### 20. Trade payables

Trade payables are interest-free and repayable normally within 6 months.

As at 30 June 2009, RMB7,173,000 was due to shareholders holding 5% or more in the shares (31 December 2008: RMB129,468,000). Please refer to Notes VIII "The relationships and transactions among related parties".

### 21. Advances from customers

As at 30 June 2009, no outstanding amounts due to shareholders holding 5% or more in the shares (31 December 2008: Nil).

### 22. Salary and welfare payables

| | Opening balance for the period | Accruals | Payments | Closing balance for the period |
|---|---|---|---|---|
| Salary, bonus, and allowance | 1,091,334 | 3,707,204 | (3,844,291) | 954,247 |
| Staff welfare | 12,683 | 165,547 | (170,896) | 7,334 |
| Social insurance | 12,173 | 141,152 | (138,897) | 14,428 |
| Including: Medical Insurance | 1,216 | 103,004 | (101,938) | 2,282 |
| Pension Insurance | 10,507 | 32,908 | (31,719) | 11,696 |
| Unemployment Insurance | 254 | 1,831 | (1,831) | 254 |
| Working injuries | 100 | 1,414 | (1,414) | 100 |
| Maternity Insurance | 96 | 1,995 | (1,995) | 96 |
| Housing funds | 1,360 | 40,736 | (41,154) | 942 |
| Labour union fund and employee education fund | 325,467 | 109,016 | (48,082) | 386,401 |
| | 1,443,017 | 4,163,655 | (4,243,320) | 1,363,352 |

### 23. Tax payable

| | **30 June 2009** | 31 December 2008 |
|---|---|---|
| Value-added tax ("VAT") | **(1,233,359)** | (1,362,909) |
| Business tax | **64,095** | 12,063 |
| City maintenance and construction tax | **2,561** | 2,809 |
| Income tax | **781,344** | 559,953 |
| PRC tax | **234,484** | 148,843 |
| Overseas tax | **546,860** | 411,110 |
| Education surcharge fee | **6,037** | 7,154 |
| Individual income tax | **55,154** | 27,311 |
| Other tax | **(108,485)** | (11,421) |
| | **(432,653)** | (765,040) |

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**24. Dividend payable**

| | **30 June 2009** | 31 December 2008 |
|---|---|---|
| Restricted shares | **75** | 10 |
| Unrestricted shares | **36,340** | 22,740 |
| | **36,415** | 22,750 |

The balance represented dividends that had not been paid to minority shareholders by subsidiaries of the Company.

**25. Provision**

| | **Opening balance of the period** | **Increase during the period** | **Decrease during the period** | **Closing balance of the period** |
|---|---|---|---|---|
| Provision of penalty | 33,524 | — | (770) | 32,754 |
| Provision for returned handsets | 44,792 | 27,475 | (26,498) | 45,769 |
| Provision for warranties | 92,066 | 116,273 | (109,317) | 99,022 |
| | 170,382 | 143,748 | (136,585) | 177,545 |

**26. Other payables**

| | **30 June 2009** | 31 December 2008 |
|---|---|---|
| Share incentive scheme | **562,729** | 529,273 |
| Accruals | **373,960** | 347,558 |
| Payables to external parties | **428,130** | 409,935 |
| Deposits | **43,850** | 67,965 |
| Others | **146,736** | 198,280 |
| Total | **1,555,405** | 1,553,011 |

As at 30 June 2009, RMB308,000 was due to shareholders holding 5% or more in the shares (31 December 2008: RMB308,000). Please refer to Notes VIII "The relationships and transactions among related parties".

**27. Long-term liabilities due within one year**

| | **30 June 2009** | 31 December 2008 |
|---|---|---|
| Long-term loans | **1,576,624** | 1,782,006 |

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### 28. Long-term loans

| | | | 30 June 2009 | | 31 December 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| **Terms** | **Financial Institutes** | **Currency** | **Original currency** | **RMB equivalent** | Original currency | RMB equivalent | **Maturity** | |
| Credit Loans | Bank of China | USD | **140,000** | **956,466** | 50,000 | 341,730 | 2009–2012 | |
| | China Citic Bank | USD | **20,000** | **136,638** | 20,000 | 136,692 | 2010 | |
| | China Merchants Bank | USD | **70,000** | **478,233** | — | — | 2011 | |
| | The Export-Import Bank of China | RMB | **1,830,000** | **1,830,000** | 800,000 | 800,000 | 2010–2011 | |
| | Bank of Communications | RMB | **61,000** | **61,000** | — | — | 2011 | |
| | Others | | **—** | **—** | | 6,418 | | |
| Secured Loans | China Development Bank | USD | **53,820** | **367,693** | 55,200 | 377,270 | 2009 | Note 1 |
| | China Development Bank | USD | **105,000** | **717,350** | 105,000 | 717,633 | 2009–2010 | Note 2 |
| | Others | INR | **3,343** | **474** | — | — | 2010 | |
| Guarantee Loans | The Export-Import Bank of China | RMB | **288,143** | **288,143** | 694,810 | 694,810 | 2010–2012 | Note 3 |
| | Others | HKD | **70** | **62** | — | — | | |
| Less: Long-term Loans due within one year | | | | **(1,576,624)** | | (1,782,006) | | |
| | | | | **3,259,435** | | 1,292,547 | | |

The rate of long-term loans was 0–5.75%.

Note 1: The loan is secured by the network assets and business licence of TK mobile.

Note 2: The loan is guaranteed by the Company's 51% equity interests in Congo-Chine Telecom S.A.R.L. ("Congo-Chine"). The Ministry of State-owned Enterprises of Congo (Kinshasa) provides a counter-guarantee for Congo-Chine by pledging its 25% equity interests in Congo-Chine. The loan is also secured by fixed assets purchased with the loans under the loan agreement.

Note 3: The guarantor is the government of Congo (Kinshasa).

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## VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

### 29. Bonds payable

| | |
|---|---|
| Opening balance | 3,514,652 |
| Interest expenses | 74,811 |
| Interest payments | (32,000) |
| Closing balance | 3,557,463 |

On 30 January 2008, the Company issued 40,000,000 bonds with warrants with a nominal value of RMB100 each and RMB4,000 million in total. The bonds and the warrants are listed on the Stock Exchange of Shenzhen. The bonds with warrants are guaranteed by China Development Bank, and are fully redeemable within 5 years from the date of issue. Holders of the bonds have also been issued 1.63 warrants at nil consideration for every bond issued and therefore a total of 65,200,000 warrants have been issued. The warrants are valid for 24 months from the date of listing. Holders of the Warrants are entitled to subscribe for one A Share for every two warrants held at an initial exercise price of RMB78.13 per Share. Since the declaration of bonus issue on 10 July 2008 and 5 June 2009, the conversion price has been adjusted to RMB42.394 each, and the exercise proportion has been adjusted to 1:0.922.

The coupon interest rate of the bonds cum warrants is 0.8% per annum payable on 30 January of each year. At the issue of the bonds, interest rates of similar bond issues (without warrants) in the market were higher than the interest rate of the bond cum warrants.

The fair value of the liability component of the bonds cum warrants was assessed by reference to interest rates of similar bond issues (without warrants) in the market at the issue date.

The net book value of the liability component of the bonds cum warrants was set out as follows:

| | |
|---|---|
| Coupon value of Bonds cum Warrants | 4,000,000 |
| Equity portion | (580,210) |
| Direct transaction costs attributable to the liability portion | (38,556) |
| Liability cost at issue date | 3,381,234 |

### 30. Deferred tax liability

| | R&D expenses capitalised | Total |
|---|---|---|
| Opening balance | (5,019) | (5,019) |
| Deferred tax credited to the income statement during the period | 3,558 | 3,558 |
| Closing balance | (1,461) | (1,461) |

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### 31. Specific payables

| | **Opening and closing balance of the period** |
|---|---|
| Technology appropriations | 80,000 |

In 2001, the China Aerospace Science and Industry Corporation ("CASIC") Group granted a special R&D fund of RMB80 million to the Company on behalf of the government. It was specifically provided in the agreement governing the R&D fund that the Company was not required to repay the fund after the project was completed, while the CASIC Group would be entitled to rights as the representative of the State capital contributor for such amount. The R&D fund had been fully utilized by 2002 and due inspection for acceptance had been performed by the CASIC Group. However, since the Company is a listed company and it is not permissible under current State regulations to issue additional shares to the CASIC Group through private placing, the CASIC Group has not been able to exercise its rights as the representative of the State capital contributor. The CASIC Group has not made any demands for withdrawal of the fund.

### 32. Share capital

The Company had registered and paid-in capital of RMB1,746,329,000 with a par value of RMB1 each. Shares were classified and structured as follows:

| | **Opening balance** | | **Increase/ (decrease) during the period** | **Closing balance** | |
|---|---|---|---|---|---|
| | **Number of shares** | **Percentage** | | **Number of shares** | **Percentage** |
| I. Restricted shares | | | | | |
| 1. State owned corporate shares | — | — | — | — | — |
| 2. Other domestic shares | | | | | |
| Domestic natural person shares | 1,693 | 0.13% | 414 | 2,107 | 0.12% |
| 3. Foreign shares | | | | | |
| Foreign corporate shares | — | — | — | — | — |
| Total number of restricted shares | 1,693 | 0.13% | 414 | 2,107 | 0.12% |
| II. Unrestricted shares | | | | | |
| 1. RMB ordinary shares | 1,117,426 | 83.18% | 335,321 | 1,452,747 | 83.19% |
| 2. Overseas listed foreign shares | 224,211 | 16.69% | 67,264 | 291,475 | 16.69% |
| Total number of unrestricted shares | 1,341,637 | 99.87% | 402,585 | 1,744,222 | 99.88% |
| III. Total shares | 1,343,330 | 100.00% | 402,999 | 1,746,329 | 100.00% |

There was an increase in the share capital of the Company during the period following the implementation of the capitalisation and bonus rights issue proposal. The increase in share capital has not been verified.

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### 33. Capital reserves

| | Opening balance | Increase during the period | Decrease during the period | Closing balance |
|---|---|---|---|---|
| Share premium | 5,078,849 | — | (402,999) | 4,675,850 |
| Equity component of bonds cum warrants | 580,210 | — | — | 580,210 |
| Change in shareholders' equity of investee net of gains/losses under equity method and other capital reserves | 39,414 | — | (7) | 39,407 |
| Equity settled transaction | 599,699 | 177,887 | — | 777,586 |
| | 6,298,172 | 177,887 | (403,006) | 6,073,053 |

### 34. Surplus reserves

| | Opening balance | Increase during the period | Decrease during the period | Closing balance |
|---|---|---|---|---|
| 30 June 2009 | 1,431,820 | 128 | (121) | 1,431,827 |

The Company could allocate other surplus reserves after the statutory surplus reserves allocation. Other surplus reserves can be applied to make up losses of the previous years, or capitalized as the company's share capitals.

### 35. Retained profits

| | **30 June 2009** | 31 December 2008 |
|---|---|---|
| Retained profits at the beginning of the year | **5,021,369** | 4,071,111 |
| Net profit | **783,367** | 1,660,199 |
| Less: Statutory surplus reserves | **(128)** | (67,062) |
| Dividend payable | **—** | (239,880) |
| Proposed dividend at the end of the period | **—** | (402,999) |
| Retained profits at the end of the period | **5,804,608** | 5,021,369 |

### 36. Minority interests

The minority interests of the major subsidiaries are as follows:

| | **30 June 2009** | 31 December 2008 |
|---|---|---|
| Anhui Wantong Posts and Telecommunications Company Limited | **33,002** | 34,207 |
| ZTE Kangxun Telecom Company Limited | **273,255** | 262,857 |
| Shenzhen Changfei Investment Company Limited | **231,310** | 235,971 |
| ZTEsoft Technology Company Limited | **112,284** | 106,911 |
| Congo-Chine Telecom S.A.R.L | **56,782** | 74,089 |
| Wuxi Zhongxing Optoelectronics Technologies Company Limited | **40,977** | 39,080 |
| Total | **747,610** | 753,115 |

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## VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

### 37. Operating revenue and costs

*The Group*

| | **Six months ended 30 June 2009** | Six months ended 30 June 2008 |
|---|---|---|
| Revenue from principal operations | **27,611,425** | 19,633,969 |
| Revenue from other operations | **96,221** | 95,015 |
| | **27,707,646** | 19,728,984 |

| | **Six months ended 30 June 2009** | Six months ended 30 June 2008 |
|---|---|---|
| Costs from principal operations | **18,755,118** | 13,030,468 |
| Costs from other operations | **69,231** | 71,745 |
| | **18,824,349** | 13,102,213 |

Sales to the top five customers of the Group generated revenue of RMB14,881,466,000 in the first half of 2009 (first half of 2008: RMB5,032,336,000), accounting for 53.71% (first half of 2008: 25.51%), of the operating revenue of the Group respectively.

*The Company*

| | **Six months ended 30 June 2009** | Six months ended 30 June 2008 |
|---|---|---|
| Revenue from principal operations | **25,848,352** | 17,259,601 |
| Revenue from other operations | **29,320** | 29,306 |
| | **25,877,672** | 17,288,907 |

| | **Six months ended 30 June 2009** | Six months ended 30 June 2008 |
|---|---|---|
| Costs from principal operations | **21,043,546** | 14,792,264 |
| Costs from other operations | **5,707** | 2,757 |
| | **21,049,253** | 14,795,021 |

Sales to the top five customers of the Company generated revenue of RMB14,639,489,000 in the first half of 2009 (first half of 2008: RMB4,645,405,000), respectively, accounting for 56.57% (first half of 2008: 26.87%) of the operating revenue of the Group respectively.

Revenue from principal operations represents revenue from the construction of telecommunications systems, sales of products and provision of labour services. The segment information of the Group is set out in Note VII. "Segment Information."

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### 38. Taxes and surcharges

| | **Six months ended 30 June 2009** | Six months ended 30 June 2008 |
|---|---|---|
| Business tax | **267,473** | 89,953 |
| City maintenance and construction tax | **9,039** | 8,017 |
| Education surcharge | **12,533** | 12,836 |
| Others | **11,000** | 38,310 |
| | **300,045** | 149,116 |

For business tax standards, please refer to Note IV, "taxation".

### 39. Finance Expenses

| | **Six months ended 30 June 2009** | Six months ended 30 June 2008 |
|---|---|---|
| Interest expenses | **392,152** | 321,591 |
| Less: Interest income | **(48,998)** | (53,806) |
| Loss/(Gain) on exchange | **(128,965)** | 76,438 |
| Cash discounts and interest subsidy | **70,451** | 36,688 |
| Bank charges | **82,712** | 20,967 |
| | **367,352** | 401,878 |

### 40. Impairment Losses

| | **Six months ended 30 June 2009** | Six months ended 30 June 2008 |
|---|---|---|
| Bad debt provisions | **341,154** | 168,191 |
| Inventories provisions | **104,775** | 31,267 |
| Total | **445,929** | 199,458 |

### 41. Gains and losses from changes in fair values

| | **Six months ended 30 June 2009** | Six months ended 30 June 2008 |
|---|---|---|
| Derivative financial instruments | **12,648** | (69,633) |

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### 42. Investment income

*The Group*

| | **Six months ended 30 June 2009** | Six months ended 30 June 2008 |
|---|---|---|
| Investment Income from long-term investment under equity method | **10,460** | 9,874 |
| Investment Income from derivative financial assets | **(10,210)** | 29,914 |
| Investment Income from disposal of equity investment | **—** | 10,423 |
| Dividend received | **2,100** | 1,495 |
| Total | **2,350** | 51,706 |

*The Company*

| | **Six months ended 30 June 2009** | Six months ended 30 June 2008 |
|---|---|---|
| Investment Income from long-term investment under cost method | **53,841** | 1,174,944 |
| Investment Income from long-term investment under equity method | **6,952** | 4,252 |
| Investment Income from derivative financial assets | **(10,210)** | 45,157 |
| Total | **50,583** | 1,224,353 |

As at the balance sheet date, the Group and the Company were not subject to significant restrictions in remitting their investment income.

### 43. Non-operating Income/Non-operating Expenses

*Non-operating Income*

| | **Six months ended 30 June 2009** | Six months ended 30 June 2008 |
|---|---|---|
| Refund of VAT on software products Note1 | **511,557** | 346,839 |
| Government subsidies | **41,911** | 31,725 |
| Financial subsidies | **47,226** | 35,414 |
| Others | **19,459** | 21,566 |
| Total | **620,153** | 435,544 |

Note 1: Refund of VAT on software products represents the refund upon payment of VAT according to the portion of any effective VAT rate in excess of 3% in respect of software product sales by a subsidiary of the Company, pursuant to the principles of Certain Policies to Encourage the Development of Software Enterprise and the IC Industry issued by the State Council and the approval reply of the State taxation authorities in Shenzhen.

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### 43. Non-operating Income/Non-operating Expenses (continued)

*Non-operating Expenses*

| | **Six months ended 30 June 2009** | Six months ended 30 June 2008 |
|---|---|---|
| Penalties | **24,341** | 19,532 |
| Others | **18,271** | 10,292 |
| Total | **42,612** | 29,824 |

### 44. Income Tax

| | **Six months ended 30 June 2009** | Six months ended 30 June 2008 |
|---|---|---|
| Current Income Tax | **358,037** | 276,870 |
| Deferred Income Tax | **(15,580)** | (77,654) |
| | **342,457** | 199,216 |

A reconciliation between income tax and total profit was as follows:

| | **Six months ended 30 June 2009** | Six months ended 30 June 2008 |
|---|---|---|
| Consolidated total profit | **1,211,196** | 868,642 |
| Tax at statutory tax rate (Note 1) | **302,799** | 217,160 |
| Lower tax rate for specific provinces or local authority | **(121,120)** | (86,865) |
| Profits and losses attributable to jointly-controlled entities and associates | **(1,042)** | 219 |
| Income not subject to tax | **(88,858)** | (154,031) |
| Expenses not deductible for tax | **279,276** | 105,562 |
| Tax losses utilised from previous periods | **(40,176)** | (3,635) |
| Tax losses of subsidiaries | **11,578** | 120,806 |
| Tax charge at the Group's effective rate | **342,457** | 199,216 |

Note 1: The Group's income tax has been provided at the rate on the estimated taxable profits arising in the PRC during the period. Taxes on taxable profits elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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### 45. Earnings per share

Basic earnings per share is computed by dividing the net profit attributable to equity holders of the parent for the period by the weighted average number of ordinary shares in issue.

In the calculation of diluted earnings per share, net profit attributable to equity holders of the parent for the period is adjusted for the following: (1) interests on potentially dilutive ordinary shares recognized as expenses for the period; (2) income or expenses arising from the conversion of potentially dilutive ordinary shares; and (3) income tax effect on the above adjustments.

In the calculation of diluted earnings per share, the denominator shall be the sum of: (1) weighted average number of ordinary shares of the Company in issue adopted in the calculation of basic earnings per share; and (2) weighted average number of ordinary shares created assuming conversion of potentially dilutive ordinary shares into ordinary shares.

In calculating the weighted average number of ordinary shares created upon conversion of potentially dilutive ordinary shares into ordinary share, potentially dilutive ordinary shares issued in previous periods are assumed to have been converted at the beginning of the current period, whereas potentially dilutive ordinary shares issued in the current period are assumed to have been converted on the date of issue.

Calculations of basic and diluted earnings per shares were as follows:

| | **Six months ended 30 June 2009** | Six months ended 30 June 2008 (Restated) |
|---|---|---|
| Earnings | | |
| Net profit attributable to ordinary equity holders of the parent for the period | **783,367** | 557,386 |
| Shares | | |
| Weighted average number of ordinary shares of the parent (Note 1) | **1,746,329** | 1,746,329 |
| Diluting effect — weighted average number of ordinary shares: | | |
| Restricted Shares under share incentive scheme | **46,754** | 46,754 |
| Adjusted weighted average number of ordinary shares of the parent in issue | **1,793,083** | 1,793,083 |

Note 1: In June 2009, the Company enlarged its share capital by 402,999,092 shares by way of capitalisation of capital reserves. After the capitalisation, the total number of ordinary shares in issue was 1,746,329,402 shares. The amounts of earnings per share for the reported periods were computed on the basis of the adjusted number of shares.

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### 46. Cash paid or received relating to other operating activities

The majority of the above cashflow is as follows:

| | **Six months ended 30 June 2009** | Six months ended 30 June 2008 |
|---|---|---|
| Cash received relating to other operating activities: | | |
| Government subsidies | **89,137** | 67,139 |

| | **Six months ended 30 June 2009** | Six months ended 30 June 2008 |
|---|---|---|
| Cash paid relating to other operating activities: | | |
| Selling and distribution costs | **1,896,073** | 1,707,621 |
| Administrative expenses and research and development cost | **949,617** | 582,219 |

### 47. Cash flows from operating activities

| | **Six months ended 30 June 2009** | Six months ended 30 June 2008 |
|---|---|---|
| Reconciliation of net profit to cash flows from operating activities | | |
| Net profit | **868,739** | 669,426 |
| Add: Provision for impairment of assets | **445,929** | 199,458 |
| Depreciation of fixed assets | **351,150** | 255,220 |
| Amortisation of intangible assets and deferred development costs | **100,878** | 40,062 |
| Amortisation of long-term deferred assets | **4,415** | 3,322 |
| Loss on disposal of fixed assets, intangible assets and other long-term assets | **6,598** | 3,459 |
| Loss/(gain) from changes in fair value | **(12,648)** | 69,633 |
| Finance expenses | **263,187** | 398,029 |
| Investment income | **(2,350)** | (51,706) |
| Decrease/(increase) in deferred tax assets | **(12,022)** | 33,723 |
| Decrease in deferred tax liabilities | **(3,558)** | — |
| Increase in inventories | **(2,520,744)** | (69,698) |
| Increase in operating receivables | **(7,570,519)** | (4,380,275) |
| Increase/(decrease) in operating payables | **6,943,017** | (518,215) |
| Share incentive scheme costs | **177,887** | 148,834 |
| Decrease/(increase) in pledged bank deposits | **(215,162)** | 47,523 |
| Net cash flows from operating activities | **(1,175,203)** | (3,151,205) |

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(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

### 48. Cash and cash equivalents

| | **Six months ended 30 June 2009** | Six months ended 30 June 2008 |
|---|---|---|
| Cash | | |
| Including: Cash on hand | **34,777** | 16,698 |
| Bank deposit without restriction | **12,025,461** | 6,595,107 |
| Other currency without restriction | **16,605** | 967,076 |
| Cash and cash equivalents at end of year | **12,076,843** | 7,578,881 |
| Restricted cash and cash equivalents used by the Company or subsidiaries of the Group | **351,408** | 125,898 |

## VII. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Summary details of the operating segments are as follows:

(a) The networks (communications systems) segment includes the wireless communications, the wireline switch and access and the optical and data communications.

(b) The terminal segment includes the manufacture and sale of mobile phone handsets and data cards by the Company.

(c) The telecommunications software systems and services and other products segment represented the provision of telecommunications software systems such as operation support systems and the provision of fee-based services.

Inter-segment transfers are conducted at prevailing market prices with reference to prices adopted in sales to third parties.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## VII. SEGMENT INFORMATION (continued)

### 1. Operating segments

**Six months ended 30 June 2009**

| | Network (communications systems) | Terminal | Telecommunications software systems, services and other products | Total |
|---|---|---|---|---|
| Revenue | | | | |
| Segment revenue | 18,796,810 | 5,575,904 | 3,334,932 | 27,707,646 |
| Results | | | | |
| Segment results | 4,018,848 | 804,536 | 582,729 | 5,406,113 |
| Unallocated revenue | | | | 620,153 |
| Unallocated costs | | | | (4,470,826) |
| Finance costs | | | | (367,352) |
| Gains/losses arising from the change in fair value of tradable financial assets | | | | 12,648 |
| Gains from investment in associates | | | | 10,460 |
| Total profit | | | | 1,211,196 |
| Income tax | | | | (342,457) |
| Net profit | | | | 868,739 |
| Other segment information: | | | | |
| Depreciation and amortisation | 326,506 | 81,887 | 48,550 | 456,443 |
| Assets impairment loss | 304,737 | 88,360 | 52,832 | 445,929 |

**30 June 2009**

| | Network (communications systems) | Terminal | Telecommunications software systems, services and other products | Total |
|---|---|---|---|---|
| Total assets | | | | |
| Segment assets | 26,530,046 | 7,692,592 | 4,599,452 | 38,822,090 |
| Unallocated assets | | | | 23,252,115 |
| Subtotal | | | | 62,074,205 |
| Total liabilities | | | | |
| Segment liabilities | 3,874,687 | 811,847 | 433,437 | 5,119,971 |
| Unallocated liabilities | | | | 41,237,989 |
| Subtotal | | | | 46,357,960 |
| Other segment information: | | | | |
| Capital expenditure | 585,459 | 145,935 | 87,054 | 818,448 |

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## VII. SEGMENT INFORMATION (continued)

### 1. Operating segments (continued)

Six months ended 30 June 2008

| | Network (communications systems) | Terminal | Telecommunications software systems, services and other products | Total |
|---|---|---|---|---|
| Revenue | | | | |
| Segment revenue | 12,853,251 | 4,294,615 | 2,581,118 | 19,728,984 |
| Results | | | | |
| Segment results | 2,892,458 | 530,833 | 437,525 | 3,860,816 |
| Unallocated revenue | | | | 435,544 |
| Unallocated costs | | | | (2,966,081) |
| Finance costs | | | | (401,878) |
| Gains/losses arising from the change in fair value of tradable financial assets | | | | (69,633) |
| Gains from investment in associates | | | | 9,874 |
| Total profit | | | | 868,642 |
| Income tax | | | | (199,216) |
| Net profit | | | | 669,426 |
| Other segment information: | | | | |
| Depreciation and amortisation | 193,199 | 71,790 | 33,615 | 298,604 |
| Assets impairment loss | 129,810 | 44,105 | 25,543 | 199,458 |

31 December 2008

| | Network (communications systems) | Terminal | Telecommunications software systems, services and other products | Total |
|---|---|---|---|---|
| Total assets | | | | |
| Segment assets | 22,468,395 | 4,931,776 | 4,364,533 | 31,764,704 |
| Unallocated assets | | | | 19,101,217 |
| Subtotal | | | | 50,865,921 |
| Total liabilities | | | | |
| Segment liabilities | 3,399,777 | 149,854 | 808,813 | 4,358,444 |
| Unallocated liabilities | | | | 31,323,930 |
| Subtotal | | | | 35,682,374 |
| Other segment information: | | | | |
| Capital expenditure | 1,353,308 | 314,210 | 267,601 | 1,935,119 |

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## VII. SEGMENT INFORMATION (continued)

### 2. Geographical analysis

**Six months ended 30 June 2009**

| | The PRC | Asia (excluding the PRC) | Africa | Others | Total |
|---|---|---|---|---|---|
| Operating revenue | **14,950,479** | **6,450,316** | **2,497,366** | **3,809,485** | **27,707,646** |

**30 June 2009**

| | The PRC | Asia (excluding the PRC) | Africa | Others | Total |
|---|---|---|---|---|---|
| Total assets | **39,229,225** | **11,344,648** | **7,782,750** | **3,717,582** | **62,074,205** |

Six months ended 30 June 2008

| | The PRC | Asia (excluding the PRC) | Africa | Others | Total |
|---|---|---|---|---|---|
| Operating revenue | 7,061,610 | 5,650,277 | 3,834,430 | 3,182,667 | 19,728,984 |

31 December 2008

| | The PRC | Asia (excluding the PRC) | Africa | Others | Total |
|---|---|---|---|---|---|
| Total assets | 29,947,902 | 9,779,680 | 7,558,069 | 3,580,270 | 50,865,921 |

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## VIII. THE RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES

### 1. Related party relationships

A party is considered to be related to the Group if the party controls individually or jointly or exercises significant influence over the Group or vice versa, or together with the Group is under common control or significant influence by another party.

The related parties of the Group are set out as follows:

1) The ultimate holding company;

2) The Group's subsidiaries;

3) Other enterprises under common control with the Group by the same parent company;

4) Investors exercising common control over the Group;

5) Investors exercising significant influence over the Group;

6) The Group's joint ventures;

7) The Group's associates;

8) Major investors of the Group and their close family members;

9) Key management personnel of the Group or the parent company and their close family members;

10) Other enterprises individually or jointly-controlled by or subject to significant influence of major investors or key management personnel of the Group or their close family members.

### 2. Holding company and Subsidiary

| Name of holding company | Place of registration | Nature of business | Shareholding Percentage of the company | Vote right Percentage of the company | Organization code | Registered Capital |
|---|---|---|---|---|---|---|
| Shenzhen Zhongxingxin Telecommunications Equipment Company Limited | Shenzhen, Guangdong | Manufacturing | 35.52% | 35.52% | 19222451-8 | RMB100 million |

The company's ultimate controlling party is the parent company.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## VIII. THE RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (continued)

### 3. Details for related parties with non-controlling relationship were as follow:

| | Relationship with connected parties | Organization code |
|---|---|---|
| Shenzhen Zhongxing WXT Equipment Company, Ltd. | Shareholder of the Company's controlling shareholder | 27941498X |
| Xi'an Microelectronics Technology Research Institute | Shareholder of the Company's controlling shareholder | H0420141-X |
| Shenzhen Zhongxing Information Technology Company Limited | Equity investor of the shareholder of the Company's controlling shareholder | 715233457 |
| Shenzhen Gaodonghua Communication Technology Company Limited | Equity investor of the shareholder of the Company's controlling shareholder | 74323392-1 |
| Shenzhen Zhongxing Development Company Limited | Company controlled by key management personnel of the Company | 75048467-3 |
| Shenzhen Shenglongfeng Industrial Company Limited | Equity investor of the shareholder of the Company's controlling shareholder | 72619249-4 |
| Shenzhen Zhongxing International Investment Company Limited | Equity investor of the shareholder of the Company's controlling shareholder | 77878418-2 |
| Lishan Microelectronics Corporation | The Company's shareholder | 43523013-9 |
| Jilin Posts and Telecommunications Equipment Company | The Company's shareholder | 12391552-6 |
| Hunan Nantian (Group) Company Limited | The Company's shareholder | 18380498-2 |
| Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited | Under the same controlling shareholder as the Company | 75049913-8 |
| Zhongxing Xinzhou Complete Equipment Company Limited | Under the same controlling shareholder as the Company | 78390928-7 |
| 深圳市中興環境儀器有限公司 | Under the same controlling shareholder as the Company | 76195854-3 |
| 深圳市聚飛光電有限公司 | Associate | 77987106-0 |
| Wuxi KaiEr Technology Company Limited | Associate | 76828981-7 |
| Shenzhen Weigao Semiconductor Company Limited | Associate | 76346680-2 |
| 國民技術股份有限公司 | Associate | 71528448-1 |
| Shenzhen Decang Technology Company Limited | Associate | 77162861-3 |
| Shenzhen Smart Electronics Company Limited. | Associate | 77412852-6 |
| Shenzhen Zhongxing Xinyu FPC Company Limited. | Under the same controlling shareholder as the Company | 75252829-7 |
| 深圳市富德康電子有限公司 | Associate | 78924272-7 |
| 中興軟件技術(南昌)有限公司 | Associate | 77585307-6 |
| 深圳市鼎力網絡有限公司 | Associate | 77717887-9 |
| 南昌興飛科技有限公司 | Associate | 67499255-2 |
| Beijing Zhongxing Intelligent Transportation Systems Ltd. | Company controlled by key management personnel of the Company | 72260457-8 |
| Mobi Antenna Technologies (Shenzhen) Company Limited | Company controlled by key management personnel of the Company | 71522427-8 |
| Chongqing Zhongxing Development Company Limited | Company controlled by key management personnel of the Company | 76591251-1 |

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## VIII. THE RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (continued)

### 4. Major transactions between the group and related companies

(1) Sales of goods to the related parties:

| | **Six months ended 30 June 2009** | Six months ended 30 June 2008 |
|---|---|---|
| Shenzhen Zhongxing Information Technology Company Limited | **4,353** | 2,812 |
| Shenzhen Zhongxingxin Telecommunications Equipment Company Limited | **329** | 126 |
| 國民技術股份有限公司 | **28** | 17 |
| Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited | **8** | 77 |
| 中興軟件技術(南昌)有限公司 | **411** | 20,956 |
| Shenzhen Zhongxing Xinyu FPC Company Limited | **—** | 1 |
| Beijing Zhongxing Intelligent Transportation Systems Ltd. | **28,919** | 14,638 |
| 南昌興飛科技有限公司 | **26,892** | — |
| Shenzhen Weigao Semiconductor Company Limited | **—** | 9,629 |
| | **60,940** | 48,256 |

Sales to related parties accounted for 0.22% of the Group's total sales. (Six months ended 30 June 2008: 0.24%).

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## VIII. THE RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (continued)

### 4. Major transactions between the group and related companies (continued)

(2) Purchase of raw materials from connected parties:

| | **Six months ended 30 June 2009** | Six months ended 30 June 2008 |
|---|---|---|
| Shenzhen Zhongxingxin Telecommunications Equipment Company Limited | **250,118** | 229,015 |
| Shenzhen Zhongxing WXT Equipment Company, Ltd. | **—** | 51,679 |
| Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited | **111,257** | 88,818 |
| Shenzhen Zhongxing Information Technology Company Limited | **7,992** | 8,438 |
| Xi'an Microelectronics Technology Research Institute | **3,295** | 4,691 |
| Shenzhen Zhongxing Xinyu FPC Company Limited | **10,652** | 16,742 |
| 國民技術股份有限公司 | **—** | 19,393 |
| Wuxi KaiEr Technology Company Limited | **20,596** | 12,689 |
| Shenzhen Decang Technology Company Ltd. | **23,471** | 12,467 |
| 深圳市富德康電子有限公司 | **19,751** | 17,627 |
| 中興軟件技術(南昌)有限公司 | **1,609** | — |
| 深圳市聚飛光電有限公司 | **5,087** | 4,429 |
| Mobi Antenna Technologies (Shenzhen) Company Limited | **177,281** | 80,241 |
| Shenzhen Smart Electronics Company, Ltd. | **—** | 164 |
| Zhongxing Xinzhou Complete Equipment Company Limited | **5,570** | 24,340 |
| Shenzhen Shenglongfeng Industrial Company Limited | **9,579** | 3,460 |
| Shenzhen Weigao Semiconductor Company Limited | **4,825** | 4,354 |
| 南昌興飛科技有限公司 | **37,515** | — |
| 深圳市鼎力網絡有限公司 | **—** | 646 |
| | **688,598** | 579,193 |

Purchases from related parties accounted for 3.97% of the Group's total purchase. (Six months ended 30 June 2008: 5.09%).

(3) Leasing property to related parties:

| | **Six months ended 30 June 2009** | Six months ended 30 June 2008 |
|---|---|---|
| Shenzhen Zhongxingxin Telecommunications Equipment Company Limited | **15,303** | 14,082 |
| Shenzhen Zhongxing Development Company Limited | **17,324** | 15,958 |
| Chongqing Zhongxing Development Company Limited | **2,271** | — |
| | **34,898** | 30,040 |

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## VIII. THE RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (continued)

### 4. Major transactions between the group and related companies (continued)

(4) Other major related transaction

| | Six months ended 30 June 2009 | | Six months ended 30 June 2008 | |
|---|---|---|---|---|
| | **amount** | **percentage** | amount | percentage |
| Salary of key management personnel | **3,349** | **0.08%** | 3,173 | 0.11% |

Notes:

1) Sales of goods to related parties: Goods were sold to connected parties by the group at market price during the period.

2) Purchase of materials from related parties: Raw materials, parts and ancillary materials were purchase by the group from related parties at market price during the period.

3) Leasing property to related parties: Properties were leased to related parties by the group at 30–115 yuan per square metre during the period.

### 5. Amounts due from/to related parties

| Item | Names of related parties | 30 June 2009 | 31 December 2008 |
|---|---|---|---|
| Bills receivable | Beijing Zhongxing Intelligent Transportation Systems Ltd. | **12,955** | 3,800 |
| | 南昌興飛科技有限公司 | **14,416** | — |
| | | **27,371** | 3,800 |
| Trade receivables | Shenzhen Zhongxingxin Telecommunications Equipment Company Limited | **—** | 943 |
| | Shenzhen Zhongxing Information Technology Company Limited | **602** | 6,102 |
| | Xi'an Microelectronics Technology Research Institute | **9** | — |
| | 國民技術股份有限公司 | **1** | 19 |
| | 中興軟件技術(南昌)有限公司 | **4,033** | 3,924 |
| | Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited | **54** | 54 |
| | Beijing Zhongxing Intelligent Transportation Systems Ltd. | **17,747** | 6,706 |
| | 南昌興飛科技有限公司 | **10,779** | 1,672 |
| | | **33,225** | 19,420 |
| Prepayments | 國民技術股份有限公司 | **—** | 182 |
| | Shenzhen Zhongxing Information Technology Company Limited | **600** | — |
| | Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited | **119** | 1,106 |
| | | **719** | 1,288 |
| Dividend receivable | Shenzhen Zhongxing Xinyu FPC Company Limited | **909** | 909 |
| | 深圳市聚飛光電有限公司 | **—** | 1,125 |
| | | **909** | 2,034 |

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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## VIII. THE RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (continued)

### 5. Amounts due from/to related parties (continued)

| Item | Names of related parties | 30 June 2009 | 31 December 2008 |
|---|---|---|---|
| Bills payable | Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited | **325** | 641 |
| | 國民技術股份有限公司 | **—** | 74 |
| | Shenzhen Decang Technology Company Limited | **4,729** | 8,577 |
| | Wuxi KaiEr Technology Company Limited | **6,507** | 4,180 |
| | Shenzhen Zhongxing Xinyu FPC Company Limited | **1,163** | 2,953 |
| | Mobi Antenna Technologies (Shenzhen) Company Limited | **—** | 9 |
| | 深圳市富德康電子有限公司 | **819** | 1,026 |
| | Shenzhen Weigao Semiconductor Company Limited | **65** | 59 |
| | 南昌興飛科技有限公司 | **14,749** | — |
| | 中興軟件技術(南昌)有限公司 | **1,542** | — |
| | Shenzhen Zhongxingxin Telecommunications Equipment Company Limited | **146,884** | — |
| | | **176,783** | 17,519 |
| Trade payables | Shenzhen Smart Electronics Company Limited. | **73** | 13 |
| | Zhongxing Xinzhou Complete Equipment Company Limited | **1,621** | 3,235 |
| | Shenzhen Zhongxingxin Telecommunications Equipment Company Limited | **7,173** | 129,468 |
| | Shenzhen Zhongxing WXT Equipment Company, Ltd. | **478** | 597 |
| | Shenzhen Zhongxing Information Technology Company Limited | **11,113** | 7,482 |
| | Shenzhen Zhongxing Xinyu FPC Company Limited | **1,678** | 1,296 |
| | Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited | **10,811** | 13,500 |
| | Shenzhen Gaodonghua Communication Technology Company Limited | **176** | 176 |
| | 國民技術股份有限公司 | **—** | 7,122 |
| | Shenzhen Decang Technology Company Limited | **16,875** | 12,216 |
| | Wuxi KaiEr Technology Company Limited | **3,414** | 2,723 |
| | Mobi Antenna Technologies (Shenzhen) Company Limited | **58,714** | 59,006 |
| | 深圳市富德康電子有限公司 | **3,203** | 3,012 |
| | Shenzhen Weigao Semiconductor Company Limited | **3,435** | 215 |
| | Shenzhen Shenglongfeng Industrial Company Limited | **3,879** | 2,331 |
| | Xi'an Microelectronics Technology Research Institute | **—** | 249 |
| | 中興軟件技術(南昌)有限公司 | **—** | — |
| | 深圳市聚飛光電有限公司 | **598** | 319 |
| | 南昌興飛科技有限公司 | **11,484** | — |
| | | **134,725** | 242,960 |

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## VIII. THE RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (continued)

### 5. Amounts due from/to related parties (continued)

| Item | Names of related parties | 30 June 2009 | 31 December 2008 |
|---|---|---|---|
| Receipt in advance | Shenzhen Weigao Semiconductor Company Limited | **4,644** | 4,644 |
| | Shenzhen Zhongxing Information Technology Company Limited | **47** | 577 |
| | Beijing Zhongxing Intelligent Transportation Systems Ltd. | **746** | 1,644 |
| | 中興軟件技術(南昌)有限公司 | **6,896** | 6,865 |
| | | **12,333** | 13,730 |
| Dividend payable | Shenzhen Zhongxing WXT Equipment Company, Ltd. | **12,087** | 12,087 |
| | Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited | **6,897** | — |
| | | **18,984** | 12,087 |
| Other payables | Lishan Microelectronics Corporation | **65** | 65 |
| | Shenzhen Zhongxing WXT Equipment Company, Ltd. | **12** | 12 |
| | Jilin Posts and Telecommunications Equipment Company | **65** | 65 |
| | Shenzhen Zhongxing Information Technology Company Limited | **48** | 48 |
| | Shenzhen Smart Electronics Company Limited. | **2,015** | 2,015 |
| | Hunan Nantian (Group) Company Limited | **130** | 130 |
| | Shenzhen Zhongxing International Investment Company Limited | **4** | 4 |
| | 深圳市中興環境儀器有限公司 | **—** | 30 |
| | Shenzhen Zhongxing Development Company Limited | **1,715** | 215 |
| | Shenzhen Zhongxingxin Telecommunications Equipment Company Limited | **308** | 308 |
| | 南昌興飛科技有限公司 | **500** | — |
| | | **4,862** | 2,892 |

Amounts due from/to connected parties were interest-free, unsecured and had no fixed terms of repayment.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## IX. CONTINGENT EVENTS

1. In November 2005, a customer instituted litigation against the Company and its subsidiary to demand an indemnity of RMB71 million, comprising the refund of an advanced payment of RMB35 million and compensation for interests and other losses amounting to RMB36 million. In December 2008, the Jiangsu Provincial High Court handed down its judgement for the first trial, which ruled that: (i) RMB35 million with interest is to be refunded to the customer by the subsidiary; (ii) losses of the subsidiary amounting to RMB11,666,000 are to be indemnified by the customer; and (iii) the Company is to be jointly responsible for the aforesaid liability of the subsidiary. The Company filed an appeal with the Supreme People's Court after receiving the first trial judgement. The case was heard at the Supreme People's Court in April 2009, but the court of second instance has yet to hand down any ruling or judgment. A real estate owned by the Company, which is located in Nanjing with an original value of RMB117.2 million, is pledged for the litigation. As at the date of approval of the financial statements, the Group had not made any payments of compensation pursuant to the aforesaid judgement. Based on the legal opinion furnished by lawyers engaged by the Company, the directors are of the opinion that the aforesaid litigation will not have any material adverse impact on the financial conditions and operating results of the Group.

2. In August 2006, a customer instituted arbitration against the Company to demand indemnity from the Company in the amount of Rs.762,982,000 (approximately RMB64,152,000). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract to demand for damages. In February 2008, the arbitration authorities issued its award ruling that an indemnity of Rs.328,040,000 (approximately RMB27,582,000) is to be paid by the Company. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a counter-claim against the customer's breach of contract. As at the date of approval of the financial statements, the Group had not made any payments of compensation pursuant to the aforesaid judgement. The legal department of the Company is of the view that it is difficult to predict the final outcome of the case at this stage. In view of the above, the Group had made provisions in the financial statements based on the arbitration award. The directors are of the opinion that the aforesaid arbitration will not have any material adverse impact on the financial conditions and operating results of the Group.

3. In July 2008, an agent filed arbitration against the Company demanding the payment of agency fees and interests with a total amount of USD35,819,000 (approximately RMB244,712,000). The case was heard before the South China Sub-Commission of the China International Economic and Trade Arbitration Commission during 17 to 19 January 2009. As at the date of approval of the financial statements, the Company was still awaiting the arbitration award. Based on the legal opinion furnished by lawyers engaged by the Company, the directors are of the opinion that the aforesaid litigation will not have any material adverse impact on the financial conditions and operating results of the Group and no provision was made in respect of such claims in the financial statements.

4. At the balance sheet date, the group had outstanding guarantees given to banks in respect of performance bonds amounting to RMB8,178,720,000.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## X. OPERATING LEASE ARRANGEMENT

Operating lease:

According to the lease contract signed with lessor, the group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 30 June 2009 | 31 December 2008 |
|---|---|---|
| Within one year (including first year) | **219,438** | 264,396 |
| In the first to second years (including second year) | **87,509** | 97,093 |
| In the second to third years (including third year) | **61,923** | 40,807 |
| After third years | **61,467** | 45,487 |
| | **430,337** | 447,783 |

## XI. COMMITMENTS

| | 30 June 2009 | 31 December 2008 |
|---|---|---|
| Capital commitments | | |
| Contracted but not provided for | **458,956** | 301,419 |
| Authorised by the Board but not yet contracted | **5,850,000** | 5,875,869 |
| Investment commitments | | |
| Contracted but not implemented completely | **257,699** | 265,702 |

## XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS

**Financial risk management objective and policies**

The main financial instruments of the group, except for derivatives, also include bank loans, cash and bank balances etc. The main purpose of these financial instruments is to financing for the group's operation. The group has many other financial assets and liabilities directly from operation, such as trade receivables and trade payables etc.

The Group entered into forward currency contracts and aimed at managing the foreign exchange risk in the group operation.

The main risk which comes from the Group's financial instruments is the credit risk, liquidity risk and market risk.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS (continued)

**Financial risk management objective and policies (continued)**

1. *Classification of financial instruments*

The book values of various financial instruments as at the balance sheet date were as follows:

| | 30 June 2009 Financial assets | | | |
|---|---|---|---|---|
| | Financial assets dealt with at fair value through current profit or loss | Loans and other receivables | Available-for-sale Financial assets | Total |
| Cash and bank balances | — | 12,428,251 | — | 12,428,251 |
| Available-for-sale financial assets | — | — | 252,310 | 252,310 |
| Bills receivable | — | 4,343,166 | — | 4,343,166 |
| Trade receivables and long term trade receivables | — | 13,880,880 | — | 13,880,880 |
| Factored trade receivables and Factored long-term trade receivables | — | 2,471,120 | — | 2,471,120 |
| Other receivables | — | 1,063,995 | — | 1,063,995 |
| | — | 34,187,412 | 252,310 | 34,439,722 |

| | 30 June 2009 Financial liabilities | | |
|---|---|---|---|
| | Financial liabilities dealt with at fair value through current profit or loss | Other Financial liabilities | Total |
| Bank loans | — | 10,020,572 | 10,020,572 |
| Bills payable | — | 9,519,953 | 9,519,953 |
| Trade payables | — | 12,794,723 | 12,794,723 |
| Trade receivables and bank advances on factored long term trade receivables | — | 2,471,120 | 2,471,120 |
| Other payables (exclude prepaid expense) | — | 1,181,445 | 1,181,445 |
| Salary and welfare payables | — | 1,363,352 | 1,363,352 |
| Taxes payable (exclude income tax) | — | (1,213,997) | (1,213,997) |
| Dividend payable | — | 36,415 | 36,415 |
| Bonds cum warrants | — | 3,557,463 | 3,557,463 |
| Other non-current liabilities | — | 39,752 | 39,752 |
| | — | 39,770,798 | 39,770,798 |

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS (continued)

**Financial risk management objective and policies (continued)**

1. *Classification of financial instruments (continued)*

| | 31 December 2008 Financial assets | | | |
|---|---|---|---|---|
| | Financial assets dealt with at fair value through current profit or loss | Loans and other receivables | Available-for-sale Financial assets | Total |
| Cash and bank balances | — | 11,480,406 | — | 11,480,406 |
| Available-for-sale financial assets | — | — | 251,148 | 251,148 |
| Bills receivable | — | 1,578,473 | — | 1,578,473 |
| Trade receivables and long term trade receivables | — | 10,584,503 | — | 10,584,503 |
| Factored trade receivables and Factored long-term trade receivables | — | 2,412,509 | — | 2,412,509 |
| Other receivables | — | 757,847 | — | 757,847 |
| | — | 26,813,738 | 251,148 | 27,064,886 |

| | 31 December 2008 Financial liabilities | | |
|---|---|---|---|
| | Financial liabilities dealt with at fair value through current profit or loss | Other Financial liabilities | Total |
| Bank loans | — | 6,957,032 | 6,957,032 |
| Bills payable | — | 6,318,059 | 6,318,059 |
| Trade payables | — | 9,495,946 | 9,495,946 |
| Trade receivables and bank advances on factored long term trade receivables | — | 2,412,509 | 2,412,509 |
| Other payables (exclude prepaid expense) | — | 1,205,453 | 1,205,453 |
| Derivative financial instruments | 12,560 | — | 12,560 |
| Salary and welfare payables | — | 1,443,017 | 1,443,017 |
| Taxes payable (exclude income tax) | — | (1,324,993) | (1,324,993) |
| Dividend payable | — | 22,750 | 22,750 |
| Bonds cum warrants | — | 3,514,652 | 3,514,652 |
| Other non-current liabilities | — | 39,752 | 39,752 |
| | 12,560 | 30,084,177 | 30,096,737 |

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

**XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS (continued)**

**Financial risk management objective and policies (continued)**

2. *Credit risk*

Credit risk is the risk arising from default of the counterparty.

The Group only trades with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. The Group does not offer credit terms in respect of trades that are not settled in the book currency of the business entity concerned, unless specifically approved by the Group's credit control department.

The Group's other financial assets, which comprise cash and bank balances, available-for-sale financial assets, other receivables and certain derivatives. The Group's credit risk of financial assets and financial guarantee contract arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Although the top five arrears have taken the total trade receivables for 32.91%, due to the risk is low, the group does not have significant concentration of credit risk.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

The further quantitative data, which is disclosure about the credit risk of trade receivables, other receivables and long-term trade receivables by the group, will be discussed in relevant financial report Notes VI.3, 5 and 9.

3. *Liquidity risk*

Liquidity risk refers to the risk of the lack of funds in performing obligations relating to financial liabilities.

The group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables, bank loans) and projected cash flows from operations.

The Group's objective is to maintain balance between the continuity and flexibility of financing through the use of bank loans, bonds cum warrants and other interest-bearing loans. With the exception of the non-current portion of bank borrowings, all borrowings are repayable within one year.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS (continued)

**Financial risk management objective and policies (continued)**

3. *Liquidity risk (continued)*

An analysis of the maturities of financial assets based on undiscounted contract cash flow is summarised as follows:

| **30 June 2009** | **Due** | **Within one year** | **1 to 2 year** | **2 to 3 year** | **After 3 year** | **Total** |
|---|---|---|---|---|---|---|
| Cash and bank balances | **12,076,843** | **351,408** | **—** | **—** | **—** | **12,428,251** |
| Bills receivable | **4,343,166** | **—** | **—** | **—** | **—** | **4,343,166** |
| Trade receivables and long term trade receivables | **9,464,452** | **3,859,783** | **277,641** | **127,950** | **151,054** | **13,880,880** |
| Factored trade receivables and Factored long-term trade receivables | **2,471,120** | **—** | **—** | **—** | **—** | **2,471,120** |
| Other receivables | **1,063,995** | **—** | **—** | **—** | **—** | **1,063,995** |
| Available-for-sale financial assets | **252,310** | **—** | **—** | **—** | **—** | **252,310** |
| | **29,671,886** | **4,211,191** | **277,641** | **127,950** | **151,054** | **34,439,722** |

| 31 December 2008 | Due | Within one year | 1 to 2 year | 2 to 3 year | After 3 year | Total |
|---|---|---|---|---|---|---|
| Cash and bank balances | 11,344,160 | 136,246 | — | — | — | 11,480,406 |
| Bills receivable | 1,578,473 | — | — | — | — | 1,578,473 |
| Trade receivables and long term trade receivables | 7,346,564 | 2,625,931 | 278,128 | 148,467 | 185,413 | 10,584,503 |
| Factored trade receivables and Factored long-term trade receivables | 2,412,509 | — | — | — | — | 2,412,509 |
| Other receivables | 757,847 | — | — | — | — | 757,847 |
| Available-for-sale financial assets | 251,148 | — | — | — | — | 251,148 |
| | 23,690,701 | 2,762,177 | 278,128 | 148,467 | 185,413 | 27,064,886 |

An analysis of the maturities of financial liabilities based on undiscounted contract cash flow is summarized as follows:

| **30 June 2009** | **Due** | **Within one year** | **1 to 2 year** | **2 to 3 year** | **After 3 year** | **Total** |
|---|---|---|---|---|---|---|
| Bank loans | **—** | **6,761,137** | **2,409,754** | **849,681** | **—** | **10,020,572** |
| Bank advances on trade receivables and long-term trade receivables | **2,471,120** | **—** | **—** | **—** | **—** | **2,471,120** |
| Bills payable | **9,519,953** | **—** | **—** | **—** | **—** | **9,519,953** |
| Trade payables | **12,794,723** | **—** | **—** | **—** | **—** | **12,794,723** |
| Salary & welfare payables | **1,363,352** | **—** | **—** | **—** | **—** | **1,363,352** |
| Taxes payable (exclude income tax) | **(1,213,997)** | **—** | **—** | **—** | **—** | **(1,213,997)** |
| Dividend payable | **36,415** | **—** | **—** | **—** | **—** | **36,415** |
| Other payables (exclude prepaid expense) | **1,181,445** | **—** | **—** | **—** | **—** | **1,181,445** |
| Bond cum warrants | **—** | | | | **3,557,463** | **3,557,463** |
| Other non-current liabilities | **—** | **—** | **—** | **—** | **39,752** | **39,752** |
| | **26,153,011** | **6,761,137** | **2,409,754** | **849,681** | **3,597,215** | **39,770,798** |

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS (continued)

### Financial risk management objective and policies (continued)

*3. Liquidity risk (continued)*

| 31 December 2008 | Due | Within one year | 1 to 2 year | 2 to 3 year | After 3 year | Total |
|---|---|---|---|---|---|---|
| Bank loans | — | 5,664,485 | 1,006,024 | 5,000 | 281,523 | 6,957,032 |
| Bank advances on trade receivables and long-term trade receivables | 2,412,509 | — | — | — | — | 2,412,509 |
| Tradable financial liabilities | 12,560 | — | — | — | — | 12,560 |
| Bills payable | 6,318,059 | — | — | — | — | 6,318,059 |
| Trade payables | 9,495,946 | — | — | — | — | 9,495,946 |
| Salary & welfare payables | 1,443,017 | — | — | — | — | 1,443,017 |
| Taxes payable (exclude income tax) | (1,324,993) | — | — | — | — | (1,324,993) |
| Dividend payable | 22,750 | — | — | — | — | 22,750 |
| Other payables (exclude prepaid expense) | 1,205,453 | — | — | — | — | 1,205,453 |
| Bond cum warrants | — | — | — | — | 3,514,652 | 3,514,652 |
| Other non-current liabilities | — | — | — | — | 39,752 | 39,752 |
| | 19,585,301 | 5,664,485 | 1,006,024 | 5,000 | 3,554,404 | 30,096,737 |

*4. Interest rate risk*

Interest rate risk is the risk that the fair value/future cash flow of a financial instrument will fluctuate because of changes in market interest rate. The Group's risk exposure to movements in market interest rates is mainly related to the Group's long-term liability bearing interest at floating rates.

On 30 June 2009, the bank loans of the Group and the Company including fixed rate debts and floating debts based on LIBOR. The Group and the Company had no significant concentration of interest rate risk.

The Group's interest risk policy requires it to manage interest risk by maintaining an appropriate mix of fixed and variable rate instruments. The Group's policy requires it to maintain the fixed interest rate between 2% and 12.9%. On 30 June 2009, approximately 58% (2008: 46%) of the Group's interest-bearing borrowings bore interest at fixed rates.

All of the interest-bearing borrowings with floating interest rate are in US$. If the bank loan interest rate and the variable rate generally increase/decrease 0.25% and the other conditions remain constant, the Group's profit before tax will accordingly decrease/increase by RMB9,998,000 and RMB11,030,000 for the six months ended 30 June 2009 and 2008 respectively.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

## XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS (continued)

**Financial risk management objective and policies (continued)**

5. *Foreign currency risk*

Foreign currency risk is the risk of loss resulting from changes in fair values of financial instruments or foreign currency exchange rates.

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is predominately in US$, EUR and RMB and certain portion of the bank loans is denominated in US$. The Group entered into forward currency contracts and tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sales contracts to minimize its transactional currency exposures. The Group takes rolling forecast on foreign currency revenue and expenses, matches the currency and amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation.

The following table demonstrates the sensitivity of a reasonably possible change in exchange rates may lead to the changes in the Group's profit before tax, with all other variables held constant.

| | US dollars exchange rate increase/ decrease | Impact on the Group's profit before tax |
|---|---|---|
| Six months ended 30 June 2009 | 3% | (57,405) |
| | –3% | 57,405 |
| Six months ended 30 June 2008 | 5% | (82,346) |
| | –5% | 82,346 |

| | EUR exchange rate increase/decrease | Impact on the Group's profit before tax |
|---|---|---|
| Six months ended 30 June 2009 | 5% | 79,103 |
| | –5% | (79,103) |
| Six months ended 30 June 2008 | 5% | 31,314 |
| | –5% | (31,314) |

## XIII. POST BALANCE SHEET EVENT

The registration of Subject Share of 85,050,238 shares granted to 4,022 Scheme Participants under the Phase I Share Incentive Scheme of the Company with China Securities Depository and Clearing Corporation Limited, Shenzhen Branch was completed. The release of lock-up for 14,559,708 Subject Shares under the Phase I Share Incentive Scheme of the Company was completed on 22 July 2009 and the listing of and trading in such shares commenced on 23 July 2009. Deducting Subject Share quota of 43,425 shares which had lapsed without unlocking, the total share capital of the Company had increased by 85,006,813 shares.

## XIV. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 August 2009.

# APPENDIX I – SUPPLEMENTARY INFORMATION TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)

## I. RECONCILIATION OF DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER PRC ASBEs AND HONG KONG FINANCIAL REPORTING STANDARDS

There were no significant differences between financial statements prepared under PRC ASBEs and under HKFRSs. Ernst & Young is the Company's Hong Kong auditor.

## II. RETURN ON NET ASSETS AND EARNINGS PER SHARE

| | Return on net assets | | Earnings per share | |
|---|---|---|---|---|
| | **Fully diluted** | **Weighted average** | **Basic** | **Diluted** |
| Net profit attributable to equity holders of the Company | 5.31% | 5.40% | 0.45 | 0.44 |
| Net profit after extraordinary items attributable to equity holders of the Company | 5.11% | 5.20% | 0.43 | 0.42 |

In particular, net profit after extraordinary items attributable to equity holders of the Company

| | **Six months ended 30 June 2009** | Six months ended 30 June 2008 |
|---|---|---|
| Net profit attributable to equity holders of the Company | **783,367** | 557,386 |
| Add/(less): | | |
| Non-operating income | **(76,267)** | (43,564) |
| Non-operating expenses | **42,612** | 29,824 |
| Effect of extraordinary items on income tax | **5,048** | 2,061 |
| Net profit after extraordinary items | **754,760** | 545,707 |
| Less: Effect of extraordinary items attributable to minority interests | **—** | — |
| Net profit after extraordinary items attributable to equity holders of the Company | **754,760** | 545,707 |

Extraordinary items are recognised in accordance with No. 1 of "Q&A on Information Disclosure Standards for Companies with Publicly Issued Securities" (CSRC Kuai Ji Zi [2007] No. 9).

# APPENDIX I – SUPPLEMENTARY INFORMATION TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)

## III. ANALYSIS OF CHANGE IN THE FIGURES OF VARIOUS ITEMS IN THE FINANCIAL STATEMENT

| Balance sheet items | Analysis of reasons |
|---|---|
| Bills receivables | Mainly attributable to increased sales and a favourable collection method offered to customers |
| Trade receivables | Mainly attributable to increased sales and a favourable collection method offered to customers |
| Other receivables | Mainly attributable to increased export tax refunds |
| Factored long-term trade receivables | Mainly as a result of increased factored long-term receivables with limiting conditions undertaken by the Company |
| Development expenditure | Mainly as a result of capitalisation of R&D expenses |
| Short-term loans | Mainly as a result of increased loans to meet working capital requirements |
| Tradable financial liabilities | Mainly as a result of settlement of forward currency transactions falling due |
| Bills payable | Mainly as a result of increased purchase of raw materials and use of bills to settle payments |
| Trade payables | Mainly as a result of increased purchase of raw materials |
| Taxes payable | Mainly as a result of the increase in enterprise income tax payable and the decrease in deductible Input VAT tax |
| Dividend payable | Mainly as a result of increase in unpaid dividends to minority interests |
| Long-term loans | Mainly as a result of increased loans to meet medium/long term capital requirements |
| Bank advances on factored long-term trade receivables | Mainly as a result of increased factored long-term receivables with limiting conditions undertaken by the Company |
| Deferred tax liabilities | Mainly as a result of the decrease in deferred income tax liabilities arising from the capitalisation of R&D expenses |
| Proposed final dividend | Mainly as a result of the distribution of dividend for the period |

| Income statement items | Analysis of reasons |
|---|---|
| Operating revenue | Mainly attributable to increased sales |
| Operating costs | Mainly attributable to increased sales and slight increase in cost ratio |
| Taxes and surcharges | Mainly as a result of the increase in corresponding business tax in line with increased service revenue |
| Research and development expenses | Mainly attributable to increased fund for research and development as a result of increased funds for operation of the Company |
| Assets impairment losses | Mainly as a result of the increase in bad debt provision |
| Gains/losses from change in fair values | Mainly as a result of the transfer of fair value gains/losses in forward exchange settlement trade matching to investment income |
| Investment income | Mainly as a result of the transfer to investment income of gain/loss arising from fair-value changes in forward foreign exchange settlement transactions |
| Non-operating revenue | Mainly attributable to the increase in refunds of software tax |
| Non-operating expenses | Mainly attributable to the increase in realization of letter of performance guarantee as a result of the fulfillment of commitment by the Company |
| Income tax | Mainly attributable to the reversal of deferred income tax assets in respect of unrealised profit of the Group and the increase in the profit of subsidiaries |
| Net profit attributable to equity holders of the parent | Mainly as a result of expanded sales |

# CONSOLIDATED INCOME STATEMENT

(Prepared under HKFRSs)
Six months ended 30 June 2009

| | Note | **Six months ended 30 June 2009 (unaudited) RMB'000** | Six months ended 30 June 2008 (unaudited) RMB'000 |
|---|---|---|---|
| **REVENUE** | 4 | **27,707,646** | 19,728,984 |
| Cost of sales | | **(19,265,232)** | (13,319,284) |
| Gross profit | | **8,442,414** | 6,409,700 |
| Other income and gains | 4 | **793,405** | 509,624 |
| Research and development costs | | **(2,606,448)** | (1,647,898) |
| Selling and distribution costs | | **(3,230,212)** | (2,666,047) |
| Administrative expenses | | **(1,430,567)** | (1,091,232) |
| Other expenses | | **(375,704)** | (333,788) |
| Finance costs | 6 | **(392,152)** | (321,591) |
| Share of profits and losses of: | | | |
| Associates | | **10,460** | 9,874 |
| **PROFIT BEFORE TAX** | 5 | **1,211,196** | 868,642 |
| Tax | 7 | **(342,457)** | (199,216) |
| **PROFIT FOR THE YEAR** | | **868,739** | 669,426 |
| **Attributable to:** | | | |
| Equity holders of the parent | | **783,367** | 557,386 |
| Minority interests | | **85,372** | 112,040 |
| | | **868,739** | 669,426 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | 9 | | |
| Basic | | **RMB0.45** | RMB0.32 |
| Diluted | | **RMB0.44** | RMB0.31 |
| **Other comprehensive income** | | **(46,371)** | (20,742) |
| **Comprehensive income** | | **822,368** | 648,684 |
| **Attributable to:** | | | |
| Equity holders of the parent | | **736,996** | 536,644 |
| Minority interests | | **85,372** | 112,040 |
| | | **822,368** | 648,684 |

# CONSOLIDATED BALANCE SHEET

(Prepared under HKFRSs)
30 June 2009

| | Note | 30 June 2009 (unaudited) RMB'000 | 31 December 2008 (audited) RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **5,200,914** | 4,892,515 |
| Prepaid land lease payments | | **480,119** | 508,389 |
| Intangible assets | | **772,528** | 592,974 |
| Investments in jointly-controlled entities | | **2,255** | 2,255 |
| Investments in associates | | **183,602** | 166,178 |
| Available-for-sale investments | | **252,310** | 251,148 |
| Long-term trade receivables | 11 | **556,645** | 612,008 |
| Factored long-term trade receivables | | **1,027,550** | 753,568 |
| Deferred tax assets | | **412,287** | 400,265 |
| **Total non-current assets** | | **8,888,210** | 8,179,300 |
| **CURRENT ASSETS** | | | |
| Prepaid land lease payments | | **10,531** | 10,527 |
| Inventories | | **11,394,005** | 8,978,036 |
| Amount due from customers for contract works | 10 | **8,871,805** | 7,894,010 |
| Trade and bills receivables | 11 | **17,667,401** | 11,550,968 |
| Factored trade receivables | | **1,443,570** | 1,658,941 |
| Prepayments, deposits and other receivables | | **2,603,792** | 2,476,642 |
| Pledged bank deposits | | **351,408** | 136,246 |
| Cash and cash equivalents | | **12,076,843** | 11,344,160 |
| **Total current assets** | | **54,419,355** | 44,049,530 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 12 | **22,314,676** | 15,814,005 |
| Amount due to customers for contract works | 10 | **3,582,481** | 2,965,582 |
| Other payables and accruals | | **4,706,036** | 4,661,469 |
| Interest-bearing bank borrowings | | **6,761,137** | 5,664,485 |
| Bank advances on factored trade receivables | | **1,443,570** | 1,658,941 |
| Tax payable | | **781,344** | 559,953 |
| Derivative financial instruments | | **—** | 12,560 |
| Dividends payable | | **36,415** | 22,750 |
| **Total current liabilities** | | **39,625,659** | 31,359,745 |
| **NET CURRENT ASSETS** | | **14,793,696** | 12,689,785 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **23,681,906** | 20,869,085 |

# CONSOLIDATED BALANCE SHEET (continued)

(Prepared under HKFRSs)
30 June 2009

| | Note | **30 June 2009 (unaudited) RMB'000** | 31 December 2008 (audited) RMB'000 |
|---|---|---|---|
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **23,681,906** | 20,869,085 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank borrowings | | **3,259,435** | 1,292,547 |
| Bank advances on factored long-term trade receivables | | **1,027,550** | 753,568 |
| Bonds cum warrants | | **3,557,463** | 3,514,652 |
| Financial guarantee contract | | **3,689** | 3,689 |
| Provision for retirement benefits | | **36,063** | 36,063 |
| Other long-term payables | | **80,000** | 80,000 |
| Deferred tax liabilities | | **1,461** | 5,019 |
| **Total non-current liabilities** | | **7,965,661** | 5,685,538 |
| **Net assets** | | **15,716,245** | 15,183,547 |
| **EQUITY** | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Issued capital | | **1,746,329** | 1,343,330 |
| Reserves | | **13,014,971** | 12,503,215 |
| Proposed final dividend | | **—** | 402,999 |
| | | **14,761,300** | 14,249,544 |
| **Minority interests** | | **954,945** | 934,003 |
| **Total equity** | | **15,716,245** | 15,183,547 |

Hou Weigui
Director

Yin Yimin
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared under HKFRSs)
30 June 2009

| | Attributable to equity holders of the parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital (Unaudited) RMB'000 | Equity component of convertible notes (Unaudited) RMB'000 | Capital reserve (Unaudited) RMB'000 | Share incentive scheme reserve (Unaudited) RMB'000 | Statutory Reserve (Unaudited) RMB'000 | Exchange fluctuation reserve (Unaudited) RMB'000 | Retained profit (Unaudited) RMB'000 | Proposed final dividend (Unaudited) RMB'000 | Total (Unaudited) RMB'000 | Minority interests (Unaudited) RMB'000 | Total equity (Unaudited) RMB'000 |
| **At 1 January 2009** | **1,343,330** | **580,210** | **5,118,263** | **599,699** | **1,431,820** | **(248,146)** | **5,021,369** | **402,999** | **14,249,544** | **934,003** | **15,183,547** |
| Exchange realignments and other income recognized directly in equity | **–** | **–** | **–** | **–** | **–** | **(46,371)** | **–** | **–** | **(46,371)** | **(19,439)** | **(65,810)** |
| Total income and expense for the period recognized directly in equity | **–** | **–** | **–** | **–** | **–** | **(46,371)** | **–** | **–** | **(46,371)** | **(19,439)** | **(65,810)** |
| Profit for the period | **–** | **–** | **–** | **–** | **–** | **–** | **783,367** | **–** | **783,367** | **85,372** | **868,739** |
| Total income and expense for the period | **–** | **–** | **–** | **–** | **–** | **(46,371)** | **783,367** | **–** | **736,996** | **65,933** | **802,929** |
| Final 2008 dividend declared | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(402,999)** | **(402,999)** | **–** | **(402,999)** |
| Transfer from capital reserve | **402,999** | **–** | **(402,999)** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Transfer from retained profit | **–** | **–** | **–** | **–** | **128** | **–** | **(128)** | **–** | **–** | **–** | **–** |
| Dividends declared to minority shareholders | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(37,273)** | **(37,273)** |
| Capital contributions by minority shareholders | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **1,200** | **1,200** |
| Equity settled share expense | **–** | **–** | **–** | **177,887** | **–** | **–** | **–** | **–** | **177,887** | **–** | **177,887** |
| Acquisition of minority interests | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(8,918)** | **(8,918)** |
| Disposal of subsidiaries | **–** | **–** | **(7)** | **–** | **(121)** | **–** | **–** | **–** | **(128)** | **–** | **(128)** |
| Others | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| At 30 June 2009 | **1,746,329** | **580,210** | **4,715,257** | **777,586** | **1,431,827** | **(294,517)** | **5,804,608** | **–** | **14,761,300** | **954,945** | **15,716,245** |
| At 1 January 2008 | 959,522 | – | 5,507,184 | 300,148 | 1,364,758 | (65,562) | 3,831,231 | 239,880 | 12,137,161 | 751,247 | 12,888,408 |
| Exchange realignments and other income recognized directly in equity | – | – | – | – | – | (20,742) | – | – | (20,742) | – | (20,742) |
| Total income and expense for the period recognized directly in equity | – | – | – | – | – | (20,742) | – | – | (20,742) | – | (20,742) |
| Profit for the period | – | – | – | – | – | – | 557,386 | – | 557,386 | 112,040 | 669,426 |
| Total income and expense for the year | – | – | – | – | – | (20,742) | 557,386 | – | 536,644 | 112,040 | 648,684 |
| Final 2007 dividend declared | – | – | – | – | – | – | – | (239,880) | (239,880) | – | (239,880) |
| Transfer from retained profits | – | – | – | – | 42,541 | – | (42,541) | – | – | – | – |
| Dividends declared to minority shareholders | – | – | – | – | – | – | – | – | – | (48,574) | (48,574) |
| Capital contributions by minority shareholders | – | – | – | – | – | – | – | – | – | 4,354 | 4,354 |
| Equity settled share expense | – | – | – | 148,834 | – | – | – | – | 148,834 | – | 148,834 |
| Issue of bonds cum warrants | – | 468,832 | – | – | – | – | – | – | 468,832 | – | 468,832 |
| At 30 June 2008 | 959,522 | 468,832 | 5,507,184 | 448,982 | 1,407,299 | (86,304) | 4,346,076 | – | 13,051,591 | 819,067 | 13,870,658 |

# CONSOLIDATED CASH FLOW STATEMENT

(Prepared under HKFRSs)
Six months ended 30 June 2009

| Items | **Six months ended 30 June 2009 (unaudited) RMB'000** | Six months ended 30 June 2008 (unaudited) RMB'000 |
|---|---|---|
| Net cash outflow from operating activities | **(1,792,327)** | (3,495,502) |
| Net cash outflow from investing activities | **(522,307)** | (555,363) |
| Net cash inflow from financing activities | **3,097,495** | 5,267,214 |
| Net increase in cash and cash equivalents | **782,861** | 1,216,349 |
| Cash and cash equivalents at beginning of period | **11,344,160** | 6,309,749 |
| Effect of foreign exchange rate changes, net | **(50,178)** | 52,783 |
| Cash and cash equivalents at end of period | **12,076,843** | 7,578,881 |
| Analysis of balance of cash and cash equivalents | | |
| Cash and bank balances | **11,435,238** | 6,621,992 |
| Unsecured time deposits with a maturity of less than three months | **641,605** | 956,889 |
| | **12,076,843** | 7,578,881 |

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under HKFRSs)
30 June 2009

## 1. CORPORATE INFORMATION

ZTE Corporation (the "Company") is a limited liability company established in the People's Republic of China (the "PRC").

The registered office of the Company is located at ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen 518057, the PRC.

During the period, the Company and its subsidiaries (collectively referred to as the "Group") were principally involved in the design, development, manufacture and sale of telecommunications system equipment and mobile terminal products as well as solutions.

In the opinion of the directors, the parent company and the ultimate holding company of the Group is Shenzhen Zhongxingxin Telecommunications Equipment Company Limited ("Zhongxingxin"), a limited liability company registered in the PRC.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention except for equity investments and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the six months ended 30 June 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the period has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under HKFRSs)
30 June 2009

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to Hong Kong Financial Reporting Standards ("HKFRSs") for the first time in preparation the interim financial statements. Save for certain cases which give rise to new and revised accounting policies and additional disclosures, the adoption of these new interpretations and amendments to HKFRSs has had no significant effect on these financial statements.

| | |
|---|---|
| HKFRS 1 (Amendments) and HKAS 27 (Amendments) | First-time adoption of HKFRSs and HKASs and Consolidated and separate financial statements — cost of an investment in a subsidiary, jointly controlled entity or associate |
| HKFRS 2 (Amendments) | Share-based payment — vesting conditions and cancellations |
| HKFRS 7 (Amendments) | Financial instruments: disclosures |
| HKFRS 8 | Operating segments |
| HKAS 1 (Revised) | Presentation of financial statements |
| HKAS 23 (Revised) | Borrowing costs |
| HKAS 32 (Amendments) and HKAS 1 (Amendments) | Financial instruments and Presentation of financial statements — puttable financial instruments and obligation arising on liquidation |
| HK(IFRIC) — Int 13 | Customer loyalty programmes |
| HK(IFRIC) — Int 15 | Agreements for the construction of real estate |
| HK(IFRIC) — Int 16 | Hedges of a net investment in a foreign operation |

The main impacts of adopting the above new and revised HKFRS are as follows:

(a) HKAS 27 (Amendments) requires all dividends from subsidiaries, associates and jointly-controlled entities to be recognised in the income statements in the separate financial statements. HKFRS 1 (Amendments) allows a first-time adoption of HKFRSs to measure its investments in subsidiaries, associates and jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The amendments do not affect consolidated financial statements. As this is not the Group's first-time adoption of the HKFRSs, HKFRS 1 (Amendments) is not applicable to the Group.

(b) HKFRS 2 (Amendments) clarifies that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. In the case that the award of a share option does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the amendments are unlikely to have any significant implications on its accounting for share-based payments.

(c) HKFRS 7 (Amendments) requires additional disclosure about fair value measurement and liquidity risk. It states that each class of financial instruments must comply with the fair value disclosure requirements in making separate disclosures, adds disclosures in respect of any changes and reasons for those changes to inputs of fair value measurements, recognises the three-level hierarchy for fair value measurements, and increases disclosure requirements in respect of maturity analysis of derivative financial liabilities. The amendments reflect adjustments to disclosure requirements and do not have any financial impact on the Group.

(d) HKFRS 8 specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under HKFRSs)
30 June 2009

**2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)**

(e) HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this revised standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements.

(f) HKAS 23 (Revised) requires capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy is consistent with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

(g) HKAS 32 (Amendments) provides a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. HKAS 1 (Amendments) requires disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments are unlikely to have any financial impact on the Group.

(h) HK(IFRIC) — Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no applicable customer loyalty award credits, the interpretation is not applicable to the Group and therefore is unlikely to have any financial impact on the Group.

(i) HK(IFRIC) — Int 15 replaces HK Interpretation 3 Revenue — Pre-completion Contracts for the Sale of Development Properties. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 Construction Contracts or an agreement for the sale of goods or services in accordance with HKAS 18 Revenue. As the Group currently is not involved in any construction of real estate, the interpretation is unlikely to have any financial impact on the Group.

(j) HK(IFRIC) — Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment, the interpretation is unlikely to have any financial impact on the Group.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under HKFRSs)
30 June 2009

## 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| HKFRS 2 and HKFRS 3 Amendments | Share-based payment — amendment of the scope of business combinations[1] |
| HKFRS 3 Amendment | Business combinations — amendment to achievement in stages and others[1] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[1] |
| HKAS 38 (Revised) | Intangible Assets — fair value of an intangible asset acquired in a business combination[1] |
| HKAS 39 (Revised) | Financial Instruments: Recognition and Measurement — qualified hedged items[1] |
| HK(IFRIC) — Int 9 | Reassessment of Embedded Derivatives and amendment of the scope of business combinations[1] |
| HK(IFRIC) — Int 16 | Hedges of a Net Investment in a Foreign Operation — amendment of the restriction on the entity that can hold hedging instruments[1] |
| HK(IFRIC) — Int 17 | Distributions of Non-cash Assets to Owners[1] |
| HK(IFRIC) — Int 18 | Transfers of Assets from Customers[1] |
| HKFRS 2 Amendment | Business Combinations — Cash-settled share-based payment transactions[2] |
| HKFRS 5 Amendment | Non-current Assets Held for Sale and Discontinued Operations[2] |
| HKFRS 8 Amendment | Operating Segments — disclosure of information about operating segments[2] |
| HKAS 1 (Revised) | Presentation of Financial Statements — classification of convertible instruments[2] |
| HKAS 7 (Revised) | Statement of Cash Flows — classification of expenditures on unrecognized assets[2] |
| HKAS 17 (Revised) | Leases — classification of leases of land and building[2] |
| HKAS 36 (Revised) | Impairment of Assets — Unit of accounting for goodwill impairment test[2] |
| HKAS 39 (Revise) | Financial Instruments: Recognition and Measurement — Hedging accounting of cash flow and others[2] |

1 Effective for accounting periods beginning on or after 1 July 2009.
2 Effective for accounting periods beginning on or after 1 January 2010.

The above new and revised HKFRSs, HKASs and Interpretations are briefly discussed as follows:

(a) HKFRS 2 Amendment shall not be applied on contribution of a business on the formation of a joint venture and transactions under common control, except business combinations as defined by HKFRS 3.

(b) HKFRS 3 Amendment introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The changes include, but not limited to, (i) introduction of the option that non-controlling interests (i.e. existing minority interests) to be measured at fair value, (ii) recognition of profit or loss arising in reassessment of the fair value of acquiree's interests held immediately before business combination achieved in stages, (iii) recognition of the cost of acquisition as an expense, (iv) recognition of the changes in fair value of contingent liabilities in profit or loss in the future after initial recognition at fair value on the date of acquisition, and (v) separate accounting treatment between acquirer and acquiree before acquisition.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under HKFRSs)
30 June 2009

**2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)**

(c) HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 Statement of Cash Flows, HKAS 12 Income Taxes, HKAS 21 The Effects of Changes in Foreign Exchange Rates, HKAS 28 Investments in Associates and HKAS 31 Interests in Joint Ventures.

(d) HKAS 38 (Revised) provides acquisition to the accounting for intangible assets acquired in business combinations, and describes the common model for revaluation of the fair value of an intangible asset acquired in a business combination when there is no active market.

(e) The amendment to HKAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. As the Group has not entered into any such hedges, the amendment is unlikely to have any financial impact on the Group.

(f) Amendment to HK(IFRIC) — Int 9 Reassessment of Embedded Derivatives shall be applied on derivatives on the formation of a joint venture and transactions under common control, except business combinations as defined by HKFRS 3.

(g) Amendment to HK(IFRIC) — Int 16 Hedges of a Net Investment in a Foreign Operation provides where each entity in a group the hedging instrument can be held.

(h) HK(IFRIC) — Int 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to HKAS 10 Events after the Balance Sheet Date and HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

(i) HK(IFRIC) — Int 18 Transfers of Assets from Customers provides that if the definition of an asset under the framework of HKASs is met, the transferred item of property, plant and equipment shall be recognized in the financial statements of transferee. The cost of the assets is measured at its fair value on the date of transfer. The timing of recognition of revenue from transfer of assets shall be subject to a separately identifiable service included in the agreement.

Save as otherwise expressly indicated, the Group expects to adopt the above HKFRSs, HKASs and Interpretations from 1 July 2009. Save for HKAS 39 which shall be applied retrospectively, the changes introduced by these revised standards shall be applied prospectively, and the Group does not expect any material impact of the adoption of such standards and interpretations on the financial statements.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under HKFRSs)
30 June 2009

## 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(j) Amendment to HKFRS 2 clarifies the accounting for group cash-settled share-based payment transactions. This standard expressly provides that an entity shall apply this standard in accounting for the goods or services received in share-based payment transactions with a choice of whether the entity settles the transaction in share (or in cash).

(k) Amendment to HKFRS 5 requires disclosure of non-current assets held for sale and discontinued operations. It clarifies that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest. This revised standard adjusts the method of presentation and will not have any financial impact on the Group.

(l) Amendment to HKFRS 8 requires the disclosure of a measure of segments assets when an entity regularly reports the measure of segment assets to the chief operating decision maker. The Group has adopted such revised standard in disclosure of financial information.

(m) Amendment to HKAS 1 provides that the settlement of liabilities through issue of equity is not related to classification of current or non-current liabilities. If an entity have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date, the liability shall classified as non-current even the counterpart can request the entity to settle in share at any time. This revised standard adjusts the method of presentation and will not have any financial impact on the Group.

(n) Amendment to HKAS 7 requires that only an expenditure that results in a recognised asset can be classified as a cash flow from investing activities. This revised standard adjusts the method of presentation and will not have any financial impact on the Group.

(o) Amendment to HKAS 17 states expressly that lease of land is classified as operating or finance lease based on general principles of lease. This revised standard will not have material financial impact on the Group.

(p) Amendment to HKAS 36 states expressly that the largest unit (or unit group) permitted by HKAS 36 for the purpose of allocating goodwill to cash-generating units in impairment test is the operating segment level defined in HKFRS 8. This revised standard will not have material financial impact on the Group.

(q) Amendment to HKAS 39 states expressly that embedded prepayment options, in which the exercise price represented a penalty for early repayment of the loan, are considered closely related to the host debt contract. The scope exemption for business combination contracts applies only to binding forward contracts between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date. For cash flow hedge accounting, it provides that gains and losses on hedging instruments should be reclassified from equity to profit and loss as a reclassification adjustment during the period that the hedged forecast cash flows affects profit or loss. It also states that hedge accounting cannot be applied to transactions between segments in individual or separate financial statements of any entity. As the Group has no hedging instruments and is not subject to terms of contract that a penalty for early repayment of a loan, this revised standard is unlikely to have any financial impact on the Group.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS



**2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)**

Save as otherwise expressly indicated, the Group expects to adopt the above HKFRSs, HKASs and Interpretations from 1 January 2010. The changes introduced by these revised standards shall be applied prospectively, and the Group expects no material impact of the adoption of such standards and interpretations on the financial statements.

**3. SEGMENT INFORMATION**

The Group's operating business are structured and managed separately, according to the nature of their operations and the products and services they provide, principal activities include carriers' networks, terminal, telecommunication software systems, services and other products.

Summary details of the operating segments are as follows:

(a) The networks (communications systems) segment includes the wireless communications, the wireline switch and access and the optical and data communications.

(b) The terminal segment engages in the manufacture and sale of mobile phone handsets and data card products.

(c) The telecommunications software systems and services and other products segment represented the provision of telecommunications software systems such as operation support systems and the provision of fee-based services.

Inter-segment sales and transfers are conducted at prevailing market prices with reference to prices adopted in sales to third parties.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under HKFRSs)
30 June 2009

## 3. SEGMENT INFORMATION (continued)

An analysis of the Group's revenue and profit by operating segment for the six months ended 30 June 2009 and 2008 is set out in the following table:

| | Networks Six months ended 30 June | | Terminals Six months ended 30 June | | Telecommunications software systems, services and other products Six months ended 30 June | | Consolidated Six months ended 30 June | |
|---|---|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Segment revenue: | | | | | | | | |
| Contract revenue from external customers | **18,796,810** | 12,853,251 | **–** | – | **1,848,806** | 1,360,829 | **20,645,616** | 14,214,080 |
| Sale of goods and services | **–** | – | **5,575,904** | 4,294,615 | **1,486,126** | 1,220,289 | **7,062,030** | 5,514,904 |
| Total | **18,796,810** | 12,853,251 | **5,575,904** | 4,294,615 | **3,334,932** | 2,581,118 | **27,707,646** | 19,728,984 |
| Segment results | **3,735,684** | 2,657,657 | **905,732** | 648,304 | **570,786** | 437,692 | **5,212,202** | 3,743,653 |
| Interest and unallocated gains | | | | | | | **793,405** | 509,624 |
| Unallocated expenses | | | | | | | **(4,412,719)** | (3,072,918) |
| Finance costs | | | | | | | **(392,152)** | (321,591) |
| Share of profits of: | | | | | | | | |
| Associates | | | | | | | **10,460** | 9,874 |
| Profit before tax | | | | | | | **1,211,196** | 868,642 |
| Tax | | | | | | | **(342,457)** | (199,216) |
| Profit for the period | | | | | | | **868,739** | 669,426 |
| Assets and liabilities | | | | | | | | |
| Segment assets | **26,858,754** | 22,811,960 | **7,774,528** | 5,011,544 | **4,648,328** | 4,432,469 | **39,281,610** | 32,255,973 |
| Investments in jointly-controlled entities | | | | | | | **2,255** | 2,255 |
| Investments in associates | | | | | | | **183,602** | 166,178 |
| Unallocated assets | | | | | | | **23,840,098** | 19,804,424 |
| Total assets | | | | | | | **63,307,565** | 52,228,830 |
| Segment liabilities | **3,874,686** | 3,399,777 | **811,847** | 149,854 | **433,437** | 808,813 | **5,119,970** | 4,358,444 |
| Unallocated liabilities | | | | | | | **42,471,350** | 32,686,839 |
| Total liabilities | | | | | | | **47,591,320** | 37,045,283 |

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under HKFRSs)
30 June 2009

## 3. SEGMENT INFORMATION (continued)

### Geographical analysis

The three operating segments of the Group are mainly operated in the PRC, other Asian regions and Africa. An analysis of the Group's revenue and profit by geographical segments for the six months ended 30 June 2009 and 2008 is set out in the following table:

| | The PRC Six months ended 30 June | | Asia (excluding the PRC) Six months ended 30 June | | Africa Six months ended 30 June | | Others Six months ended 30 June | | Consolidated Six months ended 30 June | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Segment revenue: | | | | | | | | | | |
| Contract revenue from external customers | **13,076,467** | 6,265,192 | **5,081,507** | 4,222,209 | **1,686,052** | 2,761,605 | **801,590** | 965,074 | **20,645,616** | 14,214,080 |
| Sale of goods and services | **1,874,012** | 796,418 | **1,368,809** | 1,428,068 | **811,314** | 1,072,825 | **3,007,895** | 2,217,593 | **7,062,030** | 5,514,904 |
| | **14,950,479** | 7,061,610 | **6,450,316** | 5,650,277 | **2,497,366** | 3,834,430 | **3,809,485** | 3,182,667 | **27,707,646** | 19,728,984 |
| Other segment information: | | | | | | | | | | |
| Segment assets | **42,417,580** | 30,857,334 | **10,481,480** | 8,347,805 | **4,508,526** | 7,697,638 | **5,899,979** | 5,326,053 | **63,307,565** | 52,228,830 |

## 4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the aggregate of an appropriate proportion of contract revenue from telecommunications system contracts and the invoiced value of goods and services sold net of value-added tax ("VAT") and after allowances for goods returns and trade discounts. All significant intragroup transactions have been eliminated on consolidation.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under HKFRSs)
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## 4. REVENUE, OTHER INCOME AND GAINS (continued)

An analysis of the Group's revenue, other income and gains is as follows:

| | Six months ended 30 June 2009 RMB'000 | Six months ended 30 June 2008 RMB'000 |
|---|---|---|
| **Revenue** | | |
| Telecommunications system contracts | **20,645,616** | 14,214,080 |
| Sale of goods and services | **7,062,030** | 5,514,904 |
| | **27,707,646** | 19,728,984 |
| **Other income** | | |
| Government grants | **41,911** | 31,725 |
| VAT refunds and other tax subsidies# | **558,783** | 382,253 |
| Bank and other interest income | **48,998** | 53,806 |
| Others | **—** | 8 |
| | **649,692** | 467,792 |
| **Gains** | | |
| Gain on settlement of derivative financial instruments | **12,648** | 29,914 |
| Exchange gains | **128,965** | — |
| Gain on disposal of subsidiaries | **—** | 7,700 |
| Excess over the cost arising on the acquisition of minority interests | **—** | 2,723 |
| Dividends received | **2,100** | 1,495 |
| | **143,713** | 41,832 |
| | **793,405** | 509,624 |

# During the six months ended 30 June 2009, Zhongxing Software Company Limited ("Zhongxing Software") and ZTEsoft Technology Co. Ltd ("ZTEsoft") being designated software enterprises, were entitled to VAT refunds on the effective VAT rate in excess of 3% after the payment of statutory net output VAT of 17%. Such VAT refunds were approved by the Shenzhen State Tax Bureau and Nanjing State Tax Bureau.

## 5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

| | Six months ended 30 June 2009 RMB'000 | Six months ended 30 June 2008 RMB'000 |
|---|---|---|
| Cost of inventories sold | **17,188,403** | 11,786,219 |
| Depreciation | **383,308** | 255,220 |
| Amortisation of intangible assets | **57,525** | 23,191 |
| Amortisation of development expenses | **43,353** | 16,871 |
| Provision for bad debts* | **341,154** | 168,191 |
| Provision for warranties** | **6,956** | 7,897 |
| Write-down of inventories to net realisable value** | **104,775** | 31,267 |
| Loss on disposal of fixed assets* | **6,598** | 3,459 |
| Equity-settled share expense | **177,887** | 148,834 |

* Provision for bad debts and loss on disposal of fixed assets are included in "Other expenses" on the face of the consolidated income statement.

** The provision for warranties and write-down/(reversal) of inventories to net realisable value are included in "Cost of sales" on the face of the consolidated income statement.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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## 6. FINANCE COSTS

| | **Six months ended 30 June 2009 RMB'000** | Six months ended 30 June 2008 RMB'000 |
|---|---|---|
| Interest on bank loans wholly repayable within five years | **121,282** | 165,120 |
| Finance costs on trade receivables factored and bills discounted | **196,059** | 97,517 |
| Interest on bonds cum warrants | **74,811** | 58,954 |
| | **392,152** | 321,591 |

## 7. TAX

| | **Six months ended 30 June 2009 RMB'000** | Six months ended 30 June 2008 RMB'000 |
|---|---|---|
| Group: | | |
| Current — Mainland China | **257,134** | 141,330 |
| Current — Overseas | **100,903** | 135,540 |
| Deferred taxation | **(15,580)** | (77,654) |
| Total tax expenses for the period | **342,457** | 199,216 |

Hong Kong profit tax has been provided at the rate of 16.5% (2008 : 16.5%) on the estimated assessable profits arising in Hong Kong during the year. The lower Hong Kong profit tax rate was effective for tax assessment for the year 2008/09, and was therefore applicable to assessable profit arising in Hong Kong during the period ending 30 June 2009. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Under the new enterprise income tax law of the PRC effective from 1 January 2008, the tax rate applicable to domestic-invested enterprises and foreign-invested enterprises has been standardised at 25%.

The Company and its subsidiaries established and operating in the PRC Shenzhen Special Economic Zone (SEZ) are subject to the State Council Circular on the Implementation of the Transitional Concession Policies for Corporate Income Tax (Guo Fa [2007] No. 39), which provides that enterprises previously entitled to concession policies of tax rate reductions shall have a grace period of five years to comply with the requirement of the new statutory tax rate, commencing on 1 January 2008 after the implementation of the new tax law. Enterprises entitled to a 15% corporate income tax rate will be subject to tax rates of 18%, 20%, 22%, 24% and 25% in 2008, 2009, 2010, 2011 and 2012 respectively. Enterprises certificated as high-tech enterprises are still subject to an enterprise income tax rate of 15% under a preferential tax policy. As a hi-tech enterprise in Shenzhen, the Company has obtained the certification as a national-grade hi-tech enterprise, with which the Company enjoys an enterprise income tax rate of 15%.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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**7. TAX (continued)**

Zhongxing Software, a major subsidiary of the Company which is a designated software enterprise, has been approved as a new software enterprise and entitled to full exemption from corporate income tax for two years and a 50% relief in corporate income tax in the three years thereafter starting from the first profitable year from 1 January 2003 until 31 December 2007. Zhongxing Software is a national-grade hi-tech enterprise as well as an Important Software Enterprise under the National Planning Layout and is subject to the currently applicable enterprise income tax rate of 10%.

Shenzhen Zhongxing Mobile Technology Company Limited ("Zhongxing Mobile") is entitled to full exemption from corporate income tax for two years and a 50% relief in corporate income tax in the three years thereafter starting from the first profitable year from 1 January 2003 until 31 December 2007. The company is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise.

ZTE Microelectronics Technology Company Limited, whose tax holiday expired on 31 December 2008, is subject to an enterprise income tax rate of 15% for the current year as a national-grade hi-tech enterprise for the period from 2008 to 2010.

Wuxi Zhongxing Optoelectronics Technologies Company, Limited was registered at Wuxi State's High-tech Industrial Development Zone is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a as a national-grade hi-tech enterprise which was registered in Wuxi National Hi-tech Industrial Development Park.

Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise. Pursuant to Document Shen Guo Shui Nan Jian Mian Bei An (2009) No. 132, the said company is entitled to enterprise income tax exemption in the first and second profitable years and the normal tax rate shall apply from the third year onwards. The current year was its third profitable year and the applicable enterprise income tax rate is 15%.

Shenzhen Lead Communication Equipment Company Limited is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise.

Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise.

Shanghai Zhongxing Software Company Limited has been entitled to enterprise income tax exemption in the first and second profitable years and was entitled to a 50% reduction in enterprise income tax from the third to the fifth year pursuant to Document Pu Shui Shi Wu Suo Jian (2007) No. 301 issued by the State Tax Bureau of Pudong New Area, Shanghai. The current year is its third profitable year and a 50% reduction of the enterprise income tax rate of 20% is applicable. The said company is also a national-grade hi-tech enterprise for the period from 2008 to 2010.

Nanjing Zhongxing Software Company Limited has been entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth year pursuant to Document Suo Hui Zi Jian (2007) No. 4 issued by the State Tax Bureau of Yuhuatai District, Nanjing. The current year is its fourth profitable year and a 50% reduction of the enterprise income tax rate of 25% is applicable. The said company is also a national-grade hi-tech enterprise for the period from 2008 to 2010.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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## 7. TAX (continued)

ZTEsoft Technology Company Limited is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise.

Xi'an Zhongxing Software Company Limited has been entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth year pursuant to Document Shi Guo Shui Zhi Han (2008) No. 29 issued by the Direct Branch of State Tax Bureau of Xi'an. The current year is its third profitable year and a 50% reduction of the enterprise income tax rate of 25% is applicable. The said company is also a national-grade hi-tech enterprise for the period from 2008 to 2010.

Xi'an Zhongxing Jing Cheng Communication Company Limited is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise.

## 8. DIVIDEND

The Directors do not recommend any payment of interim dividend for the six months ended 30 June 2009 (Same period of 2008: nil).

## 9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Basic earnings per share amount is computed by dividing the net profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue as adjusted by the bonus issue during the period.

The calculation of diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

Calculations of basic and diluted earnings per shares were as follows:

| | **Six months ended 30 June 2009** | Six months ended 30 June 2008 (Restated) |
|---|---|---|
| Earnings | | |
| Net profit attributable to ordinary equity holders of the Company for the period | **783,367** | 557,386 |
| Shares | | |
| Weighted average number of ordinary shares of the Company in issue (Note) | **1,746,329** | 1,746,329 |
| Diluting effect — weighted average number of ordinary shares: | | |
| Restricted Shares under share incentive scheme | **46,754** | 46,754 |
| Adjusted weighted average number of ordinary shares of the Company in issue | **1,793,083** | 1,793,083 |

Note: In June 2009, the Company enlarged its share capital by 402,999,092 shares by way of capitalization of capital reserves. After the capitalisation, the total number of ordinary shares in issue was 1,746,329,402 shares. The amounts of earnings per share for the reported periods were computed on the basis of the adjusted number of shares.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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## 10. TELECOMMUNICATIONS SYSTEM CONTRACTS

| | 30 June 2009 RMB'000 | 31 December 2008 RMB'000 |
|---|---|---|
| Amount due from customers for contract works | **8,871,805** | 7,894,010 |
| Amount due to customers for contract works | **(3,582,481)** | (2,965,582) |
| | **5,289,324** | 4,928,428 |
| Contract costs incurred plus recognized profits less recognized losses to date | **33,954,879** | 32,018,956 |
| Less: Progress billings | **(28,665,555)** | (27,090,528) |
| | **5,289,324** | 4,928,428 |

## 11. TRADE AND BILLS RECEIVABLES

Progress payment for telecommunications system contracts is normally made in accordance with the agreed payment schedule. The Group's trading terms with its major customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 90 days and is extendable up to one year depending on customers' credit worthiness. The credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on the invoice date and net of provision, is as follows:

| | 30 June 2009 RMB'000 | 31 December 2008 RMB'000 |
|---|---|---|
| Within 6 months | **16,059,951** | 10,216,760 |
| 7 to 12 months | **1,610,023** | 1,495,092 |
| 1 to 2 years | **519,179** | 444,240 |
| 2 to 3 years | **34,893** | 6,884 |
| Over 3 years | **—** | — |
| | **18,224,046** | 12,162,976 |
| Less: Current portion of trade and bills receivables | **(17,667,401)** | (11,550,968) |
| Long-term portion | **556,645** | 612,008 |

The balances due from the ultimate holding company, associates and related companies included in the above are as follows:

| | 30 June 2009 RMB'000 | 31 December 2008 RMB'000 |
|---|---|---|
| The ultimate holding company | **—** | 943 |
| Associates | **29,229** | 16,121 |
| Related companies | **31,367** | 6,156 |
| | **60,596** | 23,220 |

The balances are unsecured, interest-free and are repayable on demand, and on credit terms similar to those offered to the major customers of the Group.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under HKFRSs)
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## 12. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payable as at the balance sheet date, based on the invoice date, is as follows:

| | **30 June 2009 RMB'000** | 31 December 2008 RMB'000 |
|---|---|---|
| Within 6 months | **22,141,836** | 15,682,255 |
| 7 to 12 months | **49,941** | 76,570 |
| 1 to 2 years | **79,404** | 22,529 |
| 2 to 3 years | **17,288** | 8,062 |
| Over 3 years | **26,207** | 24,589 |
| Total | **22,314,676** | 15,814,005 |

The balances due to the ultimate holding company, related companies and associates included in the above are as follows:

| | **30 June 2009 RMB'000** | 31 December 2008 RMB'000 |
|---|---|---|
| The ultimate holding company | **154,057** | 129,468 |
| Related companies | **89,958** | 87,226 |
| Associates | **67,493** | 43,785 |
| Total | **311,508** | 260,479 |

The balances are unsecured, interest-free and are repayable on demand.

Trade payables are non-interest-bearing and are normally settled on 90-day terms.

## 13. CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

| | **30 June 2009 RMB'000** | 31 December 2008 RMB'000 |
|---|---|---|
| Guarantees given to banks in respect of performance bonds | **8,178,720** | 8,245,934 |
| | **8,178,720** | 8,245,934 |

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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## 13. CONTINGENT LIABILITIES (continued)

(b) In November 2005, a customer instituted litigation against the Company and its subsidiary to demand an indemnity of RMB71 million, comprising the refund of an advanced payment of RMB35 million and compensation for interests and other losses amounting to RMB36 million. In December 2008, the Jiangsu Provincial High Court handed down its judgment for the first trial, which ruled that: (i) RMB35 million with interest is to be refunded to the customer by the subsidiary; (ii) losses of the subsidiary amounting to RMB11.7 million are to be indemnified by the customer; and (iii) the Company is to be jointly responsible for the aforesaid liability of the subsidiary. The Company filed an appeal with the Supreme People's Court after receiving the first trial judgment. The case was heard at the Supreme People's Court in April 2009, but the court of second instance has yet to hand down any ruling or judgment. A real estate owned by the Company, which is located in Nanjing with an original value of RMB117.2 million, is pledged for the litigation. As at the date of approval of the financial statements, the Group had not made any payments of compensation pursuant to the aforesaid judgment. Based on the legal opinion furnished by lawyers engaged by the Company, the directors are of the opinion that the aforesaid litigation will not have any material adverse impact on the financial conditions and operating results of the Group.

(c) In August 2006, a customer instituted arbitration against the Company to demand indemnity from the Company in the amount of Rs.762.982 million (approximately RMB64.152 million). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract to demand for damages. In February 2008, the arbitration authorities issued its award ruling that an indemnity of Rs.328.040 million (approximately RMB27.582 million) is to be paid by the Company. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a counter-claim against the customer's breach of contract. As at the date of approval of the financial statements, the Group had not made any payments of compensation pursuant to the aforesaid judgement. The legal department of the Company is of the view that it is difficult to predict the final outcome of the case at this stage. In view of the above, the Group had made provisions in the financial statements based on the arbitration award. The directors are of the opinion that the aforesaid arbitration will not have any material adverse impact on the financial conditions and operating results of the Group.

(d) In July 2008, an agent filed arbitration against the Company demanding the payment of agency fees and interests with a total amount of USD35.819 million (approximately RMB244.712 million). The case was heard before the South China Sub-Commission of the China International Economic and Trade Arbitration Commission during 17 to 19 January 2009. As at the date of approval of the financial statements, the Company is still awaiting the arbitration award. Based on the legal opinion furnished by lawyers engaged by the Company, the directors are of the opinion that the aforesaid litigation will not have any material adverse impact on the financial conditions and operating results of the Group and no provision was made in respect of such claims in the financial statements.

Save as disclosed above, the Company and the Group had no other significant contingent liabilities as at 30 June 2009.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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## 14. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its offices under operating lease arrangements, with leases negotiated for terms ranging from 1 to 5 years.

At 30 June 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **30 June 2009** | 31 December 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Within one year | **219,438** | 264,396 |
| In the second to fifth years, inclusive | **210,899** | 182,398 |
| After five years | **—** | 989 |
| | **430,337** | 447,783 |

## 15. COMMITMENTS

**Capital Commitments**

| | **30 June 2009** | 31 December 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Capital Commitments** | | |
| Contracted, but not provided for | **458,956** | 301,419 |
| Authorised, but not contracted for | **5,850,000** | 5,875,869 |
| **Investment Commitments** | | |
| Contracted, but not completely satisfied | **257,699** | 265,702 |

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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## 16. RELATED PARTY TRANSACTIONS

### (I) Transactions with related parties

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material related party transactions during the period:

| Name of Company | Nature of transaction | Notes | Six months ended 30 June 2009 | Six months ended 30 June 2008 |
|---|---|---|---|---|
| **The ultimate holding company** | | | | |
| | Purchase of raw materials | (a) | **250,118** | 229,015 |
| | Sale of finished goods | (b) | **329** | 126 |
| | Rental expense | (c) | **15,303** | 14,082 |
| **Shareholders of the ultimate holding company** | | | | |
| | Purchase of raw materials | (a) | **20,866** | 68,268 |
| | Sale of finished goods | (b) | **4,353** | 2,812 |
| **Jointly-controlled entities** | | | | |
| | Sale of finished goods | (b) | **—** | 20,956 |
| **Associates** | | | | |
| | Purchase of raw materials | (a) | **112,854** | 71,769 |
| | Sale of finished goods | (b) | **27,331** | 9,646 |
| **Entities controlled by key management personnel of the Group** | | | | |
| | Purchase of raw materials | (a) | **177,281** | 80,241 |
| | Sale of finished goods | (b) | **28,919** | 14,638 |
| | Rental expense | (d) | **19,595** | 15,958 |
| **Shareholder of a subsidiary** | | | | |
| | Corporate guarantee | | **—** | 953,091 |
| **Fellow subsidiaries** | | | | |
| | Purchase of raw materials | (a) | **127,479** | 129,900 |
| | Sale of finished goods | (b) | **8** | 78 |

In the opinion of the directors, the above transactions were conducted in the ordinary course of business.

Notes:

(a) The purchases of raw materials were made in accordance with published prices and conditions similar to those offered by the suppliers of the Group to their major customers.

(b) The sales of finished goods were made in accordance with published prices and conditions offered to major customers of the Group.

(c) The rental expense was charged at rates ranging from RMB40 to RMB42.5 per square metre.

(d) The rental expense was charged at rates ranging from RMB30 to RMB115 per square metre.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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## 16. RELATED PARTY TRANSACTIONS (continued)

### (II) Compensation of key management personnel of the Group

| | **Six months ended 30 June 2009 RMB'000** | Six months ended 30 June 2008 RMB'000 |
|---|---|---|
| Short-term employee benefits | **3,349** | 3,173 |

## 17. POST-BALANCE SHEET EVENTS

The registration of Subject Share of 85,050,238 shares granted to 4,022 Scheme Participants under the Phase I Share Incentive Scheme of the Company with China Securities Depository and Clearing Company Limited, Shenzhen Branch was completed. The release of lock-up for 14,559,708 Subject Shares under the Phase I Share Incentive Scheme of the Company was completed on 22 July 2009 and the listing of and trading in such shares commenced on 23 July 2009. Deducting Subject Share quota of 43,425 shares which had lapsed without unlocking, the total share capital of the Company had increased by 85,006,813 shares.

## 18. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 August 2009.

# DOCUMENTS AVAILABLE FOR INSPECTION

1. Text of the 2009 interim report signed by the Chairman of the Board of Directors;

2. Original copies of the Group's unaudited financial reports and consolidated financial statements for the six months ended 30 June 2009 duly signed by the Company's legal representative, Chief Financial Officer and Head of Finance Division;

3. Original copies of all of the Company's released documents and announcements published in China Securities Journal, Securities Times and Shanghai Securities News during the reporting period;

4. Articles of Association.

By Order of the Board
**Hou Weigui**
*Chairman*

20 August 2009