

ZTE中兴 中兴通讯股份有限公司  
ZTE CORPORATION



2007

Interim Report  
半年度報告



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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”.**

“A Share(s)”	Ordinary shares of par value RMB1.00 each in the registered capital of the Company, which are listed on the Shenzhen Stock Exchange.
“Board of Directors”	The board of directors of the Company.
“CASC”	China Aerospace Science and Technology Corporation and its subsidiaries.
“CASIC”	CASIC (Group) Company, Limited and its subsidiaries.
“China”	People’s Republic of China.
“China Mobile”	China Mobile Communications Corporation and its subsidiaries.
“China Netcom”	China Network Communications Group Corporation and its subsidiaries.
“China Telecom”	China Telecommunications Corporation and its subsidiaries.
“China Unicom”	China United Telecommunications Corporation and its subsidiaries.
“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.
“CSRC”	China Securities Regulatory Commission.
“Group”	One or more of ZTE and its subsidiaries.
“H Shares”	Ordinary shares of par value of RMB1.00 each in the registered capital of the Company, which are listed and traded on the Hong Kong Stock Exchange.
“HKFRSs”	Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations.
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited.
“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).
“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.
“PRC GAAP”	Generally accepted accounting principles in China.
“Shenzhen Stock Exchange”	The Shenzhen Stock Exchange of China.
“Supervisors”	The members of the supervisory committee of the Company.
“Xi’an Microelectronics”	Xi’an Microelectronics Technology Research Institute.
“Zhongxing WXT”	Shenzhen Zhongxing WXT Equipment Company, Ltd.
“Zhongxing Xindi”	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited.
“Zhongxing Xinyu”	Shenzhen Zhongxing Xinyu FPC Company, Limited.
“Zhongxing Xinzhou”	Zhongxing Xinzhou Complete Equipment Co.,Ltd.
“Zhongxingxin”	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited.
“ZTE Kangxun”	ZTE Kangxun Telecom 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”	The third generation of wireless networks. These networks should be able to support peak data rates of 144 Kbps at mobile user speeds, 384 Kbps at pedestrian user speeds and 2 Mbps in fixed locations (peak speeds), although some initial deployments were configured to support just 64 Kbps. ITU coordinates 3G standards through its IMT-2000 project and incorporates the key standards bodies, 3GPP and 3GPP2.
“ADSL”	Asymmetrical digital subscriber lines, a method of transmitting data over traditional copper telephone lines. Data can be downloaded at speeds of up to 1.547 Mbps and uploaded at speeds of 128 Kbps.
“CDMA”	Code division multiple access, one of the standards for 2G mobile communications. It is a spread spectrum technology standard that assigns a pseudo-noise (PN) code to all speech and data bits, sends a scrambled transmission of the encoded speech over the air and reassembles the speech in its original format. By assigning a unique correlating code to each transmitter, several simultaneous conversations can share the same frequency allocations.
“CDMA2000”	A technical specification for the provision of enhanced capacity for voice under the CDMAOne standard with a maximum data rate of 2Mbps, comprising particular specifications such as 1xRTT (radio transmission technology), 1xEVDO (data only version) and 1xEVDV (voice and data version).
“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, HDSL, VDSL, MDSL and RDSL.
“GSM”	A global system for mobile communications, a digital cellular phone system standard that originated in Europe. It is deployed in more than 170 countries and uses a TDMA radio propagation scheme.
“IP”	Internet protocol, as more specifically defined in RFC 791, the primary purpose of which is to define packet architecture and address format.
“PHS”	Personal handyphone system, a digital mobile telephone system using technology developed according to Japanese standards and operating on the 1900Mhz frequency.
“softswitch”	Abbreviation for software switch, softswitch is an application protocol interface used to link a traditional PSTN to IP networks and manage traffic containing a mixture of voice, fax, data and video.
“TD-SCDMA”	Time division synchronous code division multiple access, a 3G technology developed in China to support voice and data transmission.
“WCDMA”	Wideband CDMA, a UMTS standard for 3G digital mobile networks adopting CDMA technologies to provide enhanced capacity for voice with a theoretical maximum data rate of 3Mbps.

## CORPORATE INFORMATION

**(I) BASIC INFORMATION**

1	Legal name (in Chinese) Chinese abbreviation Legal name (in English) English abbreviation	中興通訊股份有限公司 中興通訊 ZTE Corporation ZTE
2	Legal representative	Hou Weigui
3	Secretary to the Board of Directors Joint company secretaries Securities affairs representative Correspondence Address  Telephone Facsimile E-mail	Feng Jianxiong Feng Jianxiong, Ngai Wai Fung Li Lihong 6/F Block A, ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China +86 755 2677 0282 +86 755 2677 0286 fengjianxiong@zte.com.cn
4	Registered and office address  Postal code Principal place of business in Hong Kong  Website E-mail	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China 518057 8/F Gloucester Tower, The Landmark, 15 Queen's Road Central, Central, Hong Kong <a href="http://www.zte.com.cn">http://www.zte.com.cn</a> fengjianxiong@zte.com.cn
5	Newspapers designated for information disclosure by the Company  Domestic  Hong Kong  Authorised websites on which this report is made available  Place where this report is available for inspection ZTE Plaza	China Securities Journal Securities Times Shanghai Securities News  The Standard (English) Hong Kong Economic Times (Chinese)  <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>  ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China
6	Listing information	A shares Shenzhen Stock Exchange Stock name: Zhong Xing Tong Xun Stock code: 000063  H shares Hong Kong Stock Exchange Stock name: ZTE Stock code: 763

## CORPORATE INFORMATION

## (II) MAJOR FINANCIAL DATA AND INDICATORS

## 1 Major financial data and indicators prepared in accordance with PRC GAAP

Unit: RMB in thousands

	End of the current reporting period (30 June 2007)	End of the previous year (31 December 2006)		Increase/decrease as at end of reporting period compared with the end of the previous year (%)	
		Before adjustment	After adjustment	Before adjustment	After adjustment
		Total assets	<b>35,669,425</b>	25,916,949	25,760,695
Shareholders' equity*	<b>11,220,427</b>	10,678,911	10,763,946	5.07	4.24
Net asset per share*	<b>11.69</b>	11.13	11.22	5.03	4.19

	The current reporting period (For the six months ended 30 June 2007)	Corresponding period of the previous year (For the six months ended 30 June 2006)		Increase/decrease for the reporting period compared with corresponding period of the previous year (%)	
		Before adjustment	After adjustment	Before adjustment	After adjustment
		Operating profit	<b>284,318</b>	273,145	232,850
Total profit	<b>610,851</b>	482,942	453,315	26.49	34.75
Net profit*	<b>459,840</b>	373,468	347,058	23.13	32.50
Net profit after extraordinary gains or losses*	<b>485,726</b>	350,592	324,182	38.54	49.83
Earnings per share, basic*	<b>0.48</b>	0.39	0.36	23.08	33.33
Earnings per share, diluted*	<b>0.48</b>	0.39	0.36	23.08	33.33
Return on net assets (%)	<b>4.10</b>	3.64	3.35	Increase by 0.46 percentage points	Increase by 0.75 percentage points
Net cashflows from operating activities	<b>(211,995)</b>		(2,834,793)	92.52	
Net cashflows from operating activities per share	<b>(0.22)</b>		(2.95)	92.54	

\* The above figures represent interests attributable to equity holders of the listed company.

Extraordinary gains or losses items and amounts have been included as follows:

Unit: RMB in thousands

Extraordinary gains or losses items	Amount
Non-operating income	17,757
Less: Non-operating expenses	48,211
Less: Effect of income tax	(4,568)
Total	<b>(25,886)</b>

## CORPORATE INFORMATION

**2. MAJOR FINANCIAL DATA PREPARED IN ACCORDANCE WITH HKFRSs**

Item	For the six months ended 30 June 2007	For the six months ended 30 June 2006
Earnings per share, basic (RMB) *	<b>0.48</b>	0.36
Return on net assets (%)*	<b>4.10</b>	3.35

Item	As at 30 June 2007	As at 31 December 2006
Net assets per share (RMB) *	<b>11.69</b>	11.22

\* The above financial figures exclude minority interests.

- 3. THE AMOUNTS OF NET PROFIT AND OWNERS' EQUITY OF THE GROUP FOR AND AS AT THE END OF THE REPORTING PERIOD CALCULATED IN ACCORDANCE WITH PRC GAAP ARE ENTIRELY CONSISTENT WITH THOSE CALCULATED UNDER HKFRSs.**



## CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

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

	Opening balance (31 December 2006)		Issue of new shares	Increase/decrease (+/-) resulting from changes in the reporting period				Closing balance (30 June 2007)	
	Number of shares	Percentage (%)		Bonus issue	Transfer from capital reserve	Others (note)	Sub-total	Number of shares	Percentage (%)
<b>I. Shares subject to lock-up</b>	312,264,805	32.54	—	—	—	-307,673	-307,673	<b>311,957,132</b>	<b>32.51</b>
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned Legal person shares	310,982,741	32.41	—	—	—	—	—	<b>310,982,741</b>	<b>32.41</b>
3. Other domestic shareholders	1,282,064	0.13	—	—	—	-307,673	-307,673	<b>974,391</b>	<b>0.10</b>
Comprising:									
Domestic non state-owned legal person shares	—	—	—	—	—	—	—	—	—
Domestic natural person shares	1,282,064	0.13	—	—	—	-307,673	-307,673	<b>974,391</b>	<b>0.10</b>
4. Foreign shares	—	—	—	—	—	—	—	—	—
Comprising:									
Foreign legal person shares	—	—	—	—	—	—	—	—	—
Foreign natural person shares	—	—	—	—	—	—	—	—	—
<b>II. Shares not subject to lock-up</b>	647,256,845	67.46	—	—	—	+307,673	+307,673	<b>647,564,518</b>	<b>67.49</b>
1. RMB ordinary shares	487,105,805	50.77	—	—	—	+307,673	+307,673	<b>487,413,478</b>	<b>50.80</b>
2. Domestic-listed foreign shares	—	—	—	—	—	—	—	—	—
3. Oversea-listed foreign shares (H shares)	160,151,040	16.69	—	—	—	—	—	<b>160,151,040</b>	<b>16.69</b>
4. Others	—	—	—	—	—	—	—	—	—
<b>III. Total number of shares</b>	<b>959,521,650</b>	<b>100</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>959,521,650</b>	<b>100</b>

Note: During the reporting period, 25% (307,673 shares) of the A shares held by the Directors, Supervisors and senior management of Company were unlocked in accordance with relevant regulations of the PRC. Accordingly, the said amount of previously locked up shares had been reclassified as shares not subject to lock-up.

## CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

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

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

Total numbers of shareholders	30,272 shareholders (of which 29,903 were holders of A shares and 369 were holders of H shares).					
Top Ten Shareholders						
Name of shareholder	Nature of shareholder	Percentage of shareholding (%)	Total no. of shares held (shares)	Number of shares held that are subject to lock-up (shares)	Number of shares pledged or frozen	
1. Zhongxingxin	State-owned shareholders	35.49	340,544,339	310,982,741	None	
2. HKSCC Nominees Limited	Foreign shareholders	16.64	159,668,839	—	Unknown	
3. China AMC Core Blue Chip Fund (LOF)	Others	2.15	20,621,845	—	Unknown	
4. China AMC Growth Securities Investment Fund	Others	1.30	12,509,794	—	Unknown	
5. ICBC Credit Suisse Stable Growth Stock Securities Investment Fund	Others	1.22	11,711,300	—	Unknown	
6. Hunan Nantian (Group) Co., Ltd	Others	1.19	11,431,810	—	None	
7. Southern Stable Growth Securities Investment Fund II	Others	1.00	9,626,100	—	Unknown	
8. Penghua Outstanding Corporate Governance Stock Securities Investment Fund (LOF)	Others	0.84	8,034,332	—	Unknown	
9. Xingye Trend Investment Fund	Others	0.67	6,403,877	—	Unknown	
10. Rongtong Shenzheng 100 Index Securities Investment Fund	Others	0.62	5,927,368	—	Unknown	

## CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

Shareholdings of top ten holders that are not subject to lock-up			
Name of shareholder		Number of shares held that were not subject to lock-up	Class of shares
1.	HKSCC Nominees Limited	159,668,839	H Shares
2.	China AMC Core Blue Chip Fund (LOF)	20,621,845	A shares
3.	China AMC Growth Securities Investment Fund	12,509,794	A shares
4.	ICBC Credit Suisse Stable Growth Stock Securities Investment Fund	11,711,300	A shares
5.	Hunan Nantian (Group) Co., Ltd	11,431,810	A shares
6.	China Southern Sustaining Growth Securities Investment Fund II	9,626,100	A shares
7.	Penghua Outstanding Corporate Governance Stock Securities Investment Fund (LOF)	8,034,332	A shares
8.	Xingye Trend Investment Fund	6,403,877	A shares
9.	Rongtong Shenzheng 100 Index Securities Investment Fund	5,927,368	A shares
10.	CASIC Shenzhen (Group) Company, Limited	5,520,180	A shares
10.	Jilin Posts and Telecommunications Equipment Company	5,520,180	A shares
10.	Hebei Telecommunications Equipment Company, Limited	5,520,180	A shares
10.	China Mobile Telecommunications No. 7 Research Institute	5,520,180	A shares
Descriptions of any connected party relationships or concerted party relationships among the above shareholders	1	Among the Company's top ten shareholders, China AMC Core Blue Chip Fund (LOF) (3rd) and China AMC Growth Securities Investment Fund (4th) are managed by the same fund manager, China Asset Management Co., Ltd.	
	2	Shenzhen Aerospace Guangyu Industrial Group Company who holds 17% equity interests in Zhongxingxin, the largest shareholder of the Company, is a wholly-owned subsidiary of CASIC Shenzhen (Group) Company, Limited, the 10th ranking shareholder not subject to lockup. There were no connected party relationships or concerted party relationships (as defined in the Administrative Measures Governing Acquisitions by Listed Companies《上市公司收購管理辦法》) between Zhongxingxin and other top ten shareholders and top ten holders of shares not subject to lockup.	
	3	Save for the above, the Company is not aware of any connected party relationships or concerted party relationships (as defined in the Administrative Measures Governing Acquisitions by Listed Companies《上市公司收購管理辦法》) among the top ten shareholders and the top ten holders of shares that are not subject to lockup.	

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 an agreed 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	-18,414,485	340,544,339	A shares	310,982,741	29,561,598	Nil

## CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

### 2. The controlling shareholder and de facto controller of the Company

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

### 3. Shareholdings of top ten shareholders subject to lock-up and lock-up conditions

Names of shareholders subject to lock-up	Balance of shares subject to lock-up (shares)	Time for listing and trading	Number of additional shares to be listed and traded	Lock-up conditions
1. Zhongxingxin	310,982,741	29 December 2007 29 December 2008	47,976,083 263,006,658	Note
2. Hou Weigui	164,700			In accordance with relevant provisions, a maximum of 25% of shares held may be disposed of through the stock exchange.
3. Yin Yimin	91,260			
3. Zhang Taifeng	91,260			
4. Shi Lirong	71,820			
4. Wei Zaisheng	71,820			
4. Zhou Susu	71,820			
5. Chen Jie	70,875			
6. He Shiyong	68,255			
7. Ni Qin	59,130			
8. Ding Mingfeng	46,317			
9. Xie Daxiong	33,629			
10. Fang Rong	31,039			

Note: The following undertakings relating to the Share Reform Plan were made by Zhongxingxin, the largest shareholder of the Company in the Revised Share Reform Plan of ZTE Corporation announced on the designated website for information disclosure on 23 November 2005:

Statutory undertakings: to comply with the laws, regulations and rules and perform its statutory obligations, namely not to transfer or trade the listed shares, which are converted from the Non-circulating Shares, held by it within 12 months from the first trading day after implementation of the Share Reform Plan; and not to sell its original Non-circulating Shares amounting to more than five per cent (5%) of the total share capital of the Company by way of trading subsequent to their listing on the Shenzhen Stock Exchange within 12 months and not to sell more than ten per cent (10%) within 24 months after the above lock-up period.

Special undertakings: Where Zhongxingxin sells its shares during the period from the 13th month to the 24th month after such shares have been granted the right of listing and circulation on the Shenzhen Stock Exchange, the price at which the shares are sold shall not be less than RMB30.76 per share, which is 115% of the mathematical average of the closing prices of its A shares for the 60 trading days prior to the initial announcement made by the directors of the Company regarding the Share Reform Plan, that is, RMB26.75 per share (such price to be calculated on an ex-rights basis and net of any dividends, bonus issues and capitalisation of capital reserve during the period from the implementation date of the Share Reform Plan to the date of sale). The proceeds from any sale by Zhongxingxin in breach of such undertaking shall be reverted to the Company's account for the benefit of all shareholders of the Company.

The price of "RMB30.76" specified in the special undertaking by Zhongxingxin set out above has been adjusted to "RMB 30.36" following the implementation of the 2005 and 2006 profit distribution plans of the Company on 14 July 2006 and 27 July 2007, respectively.

## CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

### 4 Listing and trading dates for shares of the Company subject to lock-up

Time	Number of additional shares to be listed and traded upon expiry of lock-up (shares)	Balance of shares subject to lock-up (shares)	Balance of shares not subject to lock-up (shares)	Explanation
29 December 2007	47,976,083	263,006,658	77,537,681	Expiry of lock-up under share reform and disposal of unlocked shares
29 December 2008	263,006,658	—	340,544,339	

Note: As a holder of state-owned legal person shares, Zhongxingxin is required to comply with relevant provisions of the Provisional Regulations Governing the Transfer of Listed Company Shares Held by Holders of State-owned Shares (《國有股東轉讓所持上市公司股份管理暫行辦法》) promulgated jointly by the State-owned Assets Supervision and Management Commission and the CSRC under the State Council in any transfer of its shareholdings in the Company.

### 5. Interests of substantial shareholders and other persons in shares or debentures

As at 30 June 2007, 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	340,544,339 A shares (L)	35.49	42.60
Zhongxing WXT	340,544,339 A shares (L)	35.49	42.60
Xi'an Microelectronics	340,544,339 A shares (L)	35.49	42.60
China Aerospace Times Electronics Corporation	340,544,339 A shares (L)	35.49	42.60
China Aerospace Science and Technology Corporation	340,544,339 A shares (L)	35.49	42.60
Fidelity International Limited	16,394,500 H shares (L)	1.71	10.24
Allianz SE	16,045,500 H shares (L)	1.67	10.02
Halbis Capital Management (Hong Kong) Limited	13,232,600 H shares (L)	1.38	8.26
Goldman Sachs (Asia) L L C	11,622,000 H shares (L)	1.21	7.26
Goldman Sachs (Cayman) Holding Company	11,622,000 H shares (L)	1.21	7.26
Deutsche Bank Aktiengesellschaft	11,322,500 H shares (L)	1.18	7.07
	5,426,200 H shares (S)	0.57	3.39
Aranda Investments (Mauritius) Pte Ltd	11,141,800 H shares (L)	1.16	6.96
Massachusetts Financial Services Company ("MFS")	8,428,100 H shares (L)	0.88	5.26
Sun Life Financial, Inc	8,428,100 H shares (L)	0.88	5.26

(L) long position; (S) short position

Save as disclosed above, as at 30 June 2007, 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.

### 6. 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

There was no change in the shareholdings in the Company by the Directors, Supervisors and senior management of the Company. The effective shareholdings in the issued share capital of the Company held by and quotas for Subject Shares under the Share Incentive Scheme granted to the Directors, Supervisors and senior management of the Company at the end of the reporting period are as follows:

No	Name	Title	Number of A shares held at the end of the reporting period (shares)	Quota of Subject Shares granted under Phase I of the Share Incentive Scheme of the Company (shares)
<b>Directors of the Company</b>				
1	Hou Weigui	Chairman	219,600	—
2	Wang Zongyin	Vice Chairman	—	10,000
3	Xie Weiliang	Vice Chairman	—	10,000
4	Zhang Junchao	Director	—	10,000
5	Li Juping	Director	—	10,000
6	Dong Lianbo	Director	—	10,000
7	Yin Yimin	Director and President	121,680	—
8	Shi Lirong	Director and Senior Vice President	95,760	—
9	He Shiyou	Director and Senior Vice President	91,007	—
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	—	—
<b>Supervisors of the Company</b>				
15	Zhang Taifeng	Chairman of the Supervisory Committee	121,680	—
16	Wang Wangxi	Supervisor	—	—
17	He Xuemei	Supervisor	—	—
18	Qu Deqian	Supervisor	10,020	—
19	Wang Yan	Supervisor	—	—
<b>Senior management of the Company</b>				
20	Wei Zaisheng	Senior Vice President and Chief Financial Officer	95,760	—
21	Xie Daxiong	Senior Vice President	44,839	100,000
22	Zhou Susu	Senior Vice President	95,760	—
23	Tian Wenguo	Senior Vice President	24,300	100,000
24	Qiu Weizhao	Senior Vice President	—	100,000
25	Chen Jie	Vice President	94,500	100,000
26	Fang Rong	Vice President	41,385	100,000
27	Zhao Xianming	Vice President	—	180,000
28	Ding Mingfeng	Vice President	61,756	100,000
29	Pang Shengqing	Vice President	—	150,000
30	Fan Qingfeng	Vice President	—	150,000
31	Zeng Xuezhong	Vice President	—	150,000
32	Xu Huijun	Vice President	—	180,000
33	Yu Yong	Vice President	—	150,000
34	Ye Weimin	Vice President	33,804	100,000
35	Zhong Hong	Vice President	—	150,000
36	Ni Qin	Vice President	78,840	100,000
37	Wu Zengqi	Vice President	—	150,000
38	Feng Jianxiong	Secretary to the Board	—	100,000
<b>Total</b>			<b>1,230,691</b>	<b>2,210,000</b>

Note 1: 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 2: Please refer to the Company's announcement on Phase I of the Share Incentive Scheme (Version Dated 5 February 2007) published on the designated information disclosure website (<http://www.cninfo.com.cn>) on 14 February 2007 for details of Phase I of the Share Incentive Scheme of the Company.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

#### 1. Changes in Directors of the Company during the reporting period

At the second extraordinary general meeting for 2007 of the Company held on 30 March 2007, all Directors sitting on the Third Session of the Board of Directors were re-elected as Directors for the Fourth Session of the Board of Directors, who would serve for a term from 30 March 2007 to 29 March 2010.

At the first meeting of the Fourth Session of the Board of Directors held on 30 March 2007, Mr. Hou Weigui was elected Chairman of the Fourth Session of the Board of Directors and Mr. Wang Zongyin and Mr. Xie Weiliang were elected Vice Chairmen of the Fourth Session of the Board of Directors.

#### 2. Changes in Supervisors of the Company during the reporting period

At the second extraordinary general meeting for 2007 of the Company held on 30 March 2007, Mr. Qu Deqian and Ms. Wang Yan, Shareholders' Representative Supervisors of the Third Session of the Supervisory Committee of the Company, were re-elected as Shareholders' Representative Supervisors for the Fourth Session of the Supervisory Committee. Mr. Zhang Taifeng, Mr. Wang Wangxi and Ms He Xuemei, Staff Representative Supervisors of the Third Session of the Supervisory Committee of the Company, were re-elected as Staff Representative Supervisors for the Fourth Session of the Supervisory Committee through democratic elections among staff representatives of the Company on 30 January 2007. Supervisors for the Fourth Session of the Supervisory Committee would serve for a term from 30 March 2007 to 29 March 2010.

At the first meeting of the Fourth Session of the Supervisory Committee of the Company held on 30 March 2007, Mr. Zhang Taifeng was elected Chairman of the Fourth Session of the Supervisory Committee.

#### 3. Changes in senior management of the Company during the reporting period

At the first meeting of the Fourth Session of the Board of Directors held on 30 March 2007, the Board of Directors re-appointed Mr. Yin Yimin as President of the Company and Mr Shi Lirong, Mr He Shiyou, Mr Wei Zaisheng (concurrently as Chief Financial Officer of the Company), Mr Xie Daxiong, Ms Zhou Susu and Mr Tian Wenguo as Senior Vice Presidents of the Company, appointed Mr Qiu Weizhou as Senior Vice President of the Company, re-appointed Ms Chen Jie, Ms Fang Rong, Mr Zhao Xianming, Mr Ding Ming Feng, Mr Pang Shengqing, Mr Fan Qingfeng, Mr Zeng Xuezhong, Mr Xu Huijun, Mr Yu Yong, Mr Ye Weimin, Mr Zhong Hong and Mr Ni Qin as Vice Presidents of the Company, appointed Mr Wu Zengqi as Vice President of the Company and re-appointed Mr Feng Jianxiong as Secretary to the Board of Directors of the Company.

### (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 2007 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 2007, 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 2007, 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 2007.

### FINANCIAL RESULTS

Please refer to page 134 and page 200 of this report for the results of the Group for the six months ended 30 June 2007 prepared in accordance with PRC GAAP and HKFRSs.

#### (1) REVIEW OF BUSINESS DURING THE FIRST HALF OF 2007

##### Overview of the PRC telecommunications industry in the first half of 2007

China's telecommunications industry maintained sustainable growth during the first six months of 2007 on the back of rapid economic growth of the nation. According to the statistics from the Ministry of Information Industry, revenue for the telecommunications sector in China grew by 9.9% to RMB351.62 billion, as compared to the same period last year. The population of mobile phone users was expanding in fast speed, while growth of fixed line users remained modest. Fixed assets investments from telecommunications carriers improved although structural realignments continued with further declines in spending on CDMA and PHS.

##### Overview of the global telecommunications industry in the first half of 2007

The global telecommunications market continued to enjoy stable growth during the first six months of 2007. Investment growth was significantly faster in the emerging markets than in developed regions such as North America and Western Europe.

##### Operating results of the Group for the first half of 2007

Revenue from the Group's operations for the first six months of 2007 based on the financial statements prepared in accordance with PRC GAAP amounted to RMB15.232 billion representing an increase of 43.85% compared to the same period last year. Net profit amounted to RMB460 million, representing an increase of 32.50% compared to the same period last year. Earnings per share reached RMB0.48 and net cash outflows from operating activities was RMB0.22 per share.

Revenue from the Group's operations for the first six months of 2007 based on the financial statements prepared in accordance with HKFRSs amounted to RMB15.232 billion, representing an increase of 43.85% compared to the same period last year. Net profit amounted to RMB460 million, representing an increase of 32.50% compared to the same period last year. Earnings per share reached RMB0.48 and net cash outflow from operating activities was RMB0.38 per share.

##### By market

###### *The domestic market*

During the first six months of 2007, the Group maintained steady growth in its domestic business thanks to the outstanding performance of its TD-SCDMA and GSM products, while China Mobile became the Group's largest domestic customer.

###### *The international market*

During the first six months of 2007, the Group focused on developing premium customers represented by multinational carriers and mainstream carriers of various countries, while reinforcing its position in traditional strongholds such as the Asia Pacific, South Asia and Africa. Strong efforts were being made to enlarge our market shares in mainstream products such as GSM, CDMA and transmission products. We succeeded in opening up markets in developed countries in a more significant scale with the sales of terminals and new business applications to Western Europe and North America.

##### By product

The Group registered substantial growth compared to the same period last year in the sales revenue from wireless communications products, handsets, optical and data communications during the first six months of 2007, reflecting further optimisation in product mix.



## REPORT OF THE BOARD OF DIRECTORS

### *Wireless communications products*

Sales of the Group's wireless communications products grew rapidly during the first six months of 2007. Market shares for GSM products further increased as the Group gained access to new markets and carriers with strong potentials, while maintaining its share in traditional strongholds. Breakthrough in the 3G business underpinned by the excellent performance of our TD-SCDMA products in the tendering process of China Mobile. Our TD-SCDMA wireless network products were selected for network constructions in Beijing, Tianjin, Shenzhen, Shenyang, Qinhuangdao and Xiamen and our TD-SCDMA core network products were selected for projects in Beijing, Guangzhou, Xiamen and Qinhuangdao. The Group commenced deliveries of TD-SCDMA products during the period to lay a solid foundation for the future development of this product line. Our CDMA2000 has completed trials for mass commercial application in the international market.

### *Optical and data communications products*

For the first six months of 2007, the Group achieved significant increase compared to the same period last year in the sales of optical and data communications products as market coverage was substantially enlarged for its optical communications systems and DSL products.

### *Wireline switch and access products*

The global market for wireline switch and access products continued to shrink during the first six months of 2007 as carriers became increasingly cautious over investments in wireline switch and access products. For its part, the Group also moved to optimise its existing product mix.

### *Handsets*

Growth of the global handset market continued to accelerate during the first six months of 2007. Emerging manufacturers such as the Group were able to capture more business opportunities by offering customised designs and shortening response time.

The Group's handset business enjoyed rapid growth during the first six months of 2007. We gained access to the markets of developed countries and regions with sizeable sales on the back of enhanced ability in developing and customising handset products and customers' recognition of our 3G mobile phones. For CDMA handsets, our swift expansion in the international market was underpinned by stronger brand name recognition in markets like South Asia and closer ties with local carriers. Our market base was broadened and our products were selected for use by many international carriers. Our GSM handsets were shortlisted for the GSM handset selection and customisation processes of world leading carriers such as Vodafone and China Mobile, resulting in significant growth in both domestic and international sales.

## **(II) DISCUSSION AND ANALYSIS IN ACCORDANCE WITH PRC GAAP**

The financial data below are extracted from the Group's unaudited financial statements for the six months ended 30 June 2007 prepared in accordance with PRC GAAP. 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**

Unit: RMB in thousands

<b>Item</b>	<b>Six months ended 30 June 2007</b>	<b>Six months ended 30 June 2006</b>	<b>Percentage of increase/ decrease (%)</b>
Revenue	<b>15,231,932</b>	10,588,900	43.85
Operating profit	<b>284,318</b>	232,850	22.10
Net profit attributable to equity holders of the parent*	<b>459,840</b>	347,058	32.50

Note: the significant growth in sales revenue and net profit as compared to the same period last year was mainly attributable to the growth of the Company's business by large scale.

\* The above financial figure excludes minority interests.

## REPORT OF THE BOARD OF DIRECTORS

**2. Breakdown of certain indicators by industry and product segments for the reporting period as compared to the corresponding period of the previous year**

By industry or by product	Sales revenue (RMB in thousands)	Cost of sales (RMB in thousands)	Gross profit margin (%)	Increase/decrease in sales revenue compared with the same period last year (%)	Increase/decrease in cost of sales compared with the same period last year (%)	Increase/decrease in gross profit margin compared with the same period last year (percentage points)
I. By industry						
Manufacturing of communications systems	15,231,932	9,678,382	36.46	43.85	42.09	0.79
II. By product						
Wireless communications	6,801,448	3,584,540	47.30	93.58	88.11	1.53
Wireline switch and access	592,150	360,392	39.14	-44.92	-46.30	1.57
Optical and data communications	2,545,361	1,690,961	33.57	48.81	40.79	3.78
Handset	3,592,480	2,735,354	23.86	68.34	71.70	-1.49
Telecommunication software systems, services and other products	1,700,493	1,307,135	23.13	-21.12	-9.27	-10.04
Total	15,231,932	9,678,382	36.46	43.85	42.09	0.79
Of which:						
Connected transactions*	9,407	6,200	34.09	-43.02	-43.35	0.39
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 continuity of the connected transactions	Sales by the Company to the connected parties mainly related to distribution of the Company's products by the connected 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 Group during the Reporting Period amounted to RMB330,000.

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

**3. Breakdown of sales revenue by geographic segments for the reporting period as compared to the corresponding period of the previous year**

Unit: RMB in thousands

Region	Sales revenue	Increase/decrease in sales revenue compared with the same period last year (%)
The PRC	7,261,335	10.31
Asia (excluding the PRC)	3,980,003	125.18
Africa	1,850,193	29.13
Other regions	2,140,401	165.59
Total	15,231,932	43.85

## REPORT OF THE BOARD OF DIRECTORS

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

Unit: RMB in thousands

By product	Sales revenue	Cost of sales	Gross profit margin (%)
Wireless communications	6,801,448	3,584,540	47.30
Optical and data communications	2,545,361	1,690,961	33.57
Handset	3,592,480	2,735,354	23.86
Telecommunication software systems, services and other products	1,700,493	1,307,135	23.13

#### 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) Reasons for change in the principal business and its structure during the reporting period compared to the same period last year:

Product segments	Revenue from various product segments as a percentage of sales revenue Compared to first six months of 2006
Wireless communications	Increase by 11.47 percentage points
Wireline switch and access	Decrease by 6.26 percentage points
Optical and data communications	Increase by 0.56 percentage points
Handset	Increase by 3.43 percentage points
Telecommunication software systems, services and other products	Decrease by 9.20 percentage points

Note 1: The growth in sales revenue from the wireless communications segment as a percentage of sales revenue compared to the same period last year was attributable mainly to the significant growth in the sales of the Group's wireless communications products.

Note 2: Revenue generated from the sales of the Group's telecommunications software systems, services and other products as a percentage of sales revenue declined compared to the same period last year primarily as a result of the decrease in sales of the Group's video and network terminals.

- (2) Changes in the breakdown of profit as compared to the same period last year

Item	As a percentage of total profit for the six months ended 30 June 2007	As a percentage of total profit for the six months ended 30 June 2006	Change
Operating profit	46.54%	51.37%	Decrease by 4.83 percentage points
Expenses for the period	833.20%	786.83%	Increase by 46.37 percentage points
Investment gains	1.44%	0.15%	Increase by 1.29 percentage points
Non-operating income/expense, net	53.46%	48.63%	Increase by 4.83 percentage points

Note: The increase in expenses for the period as a percentage of total profit is mainly attributable to the growth in cost of sales and finance expenses of the Group.

- (3) There was no substantial change in the profitability (gross profit margin) of principal business during the reporting period as compared to the same period last year:

Item	Six months ended 30 June 2007	Six months ended 30 June 2006
Gross profit margin	36.46%	35.67%

## REPORT OF THE BOARD OF DIRECTORS

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's operations in the first half of 2007**

Enhancement of project execution abilities required: We need to improve our abilities in project execution in response to the rapid growth of overseas business and resulting increase in the volume of project works, especially when the focus of competition for overseas projects was seen shifting from the technical and commercial aspects to project execution.

### 9. Investments

- (1) There was no application of issue proceeds during the reporting period.
- (2) There were no major investments using funds other than the issue proceeds.

### 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 2007 in the 2006 Annual Report.

### (III) Discussion and Analysis 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.

### Revenue

Unit: RMB in millions

Product Segment	For the six months ended 30 June 2007		For the six months ended 30 June 2006	
	Revenue	As a percentage of sales revenue	Revenue	As a percentage of sales revenue
Wireless communications	6,801.4	44.6%	3,513.4	33.2%
Wireline switch and access	592.1	3.9%	1,075.0	10.2%
Optical and data communications	2,545.4	16.7%	1,710.5	16.2%
Handsets	3,592.5	23.6%	2,134.1	20.2%
Telecommunications software systems, services and other products	1,700.5	11.2%	2,155.9	20.2%
Total	15,231.9	100.0%	10,588.9	100%

## REPORT OF THE BOARD OF DIRECTORS

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

Unit: RMB in millions

Region	For the six months ended 30 June 2007		For the six months ended 30 June 2006	
	Revenue	As a percentage of sales revenue	Revenue	As a percentage of sales revenue
The PRC	<b>7,261.3</b>	<b>47.7%</b>	6,582.7	62.2%
Asia (excluding the PRC)	<b>3,980.0</b>	<b>26.1%</b>	1,767.5	16.8%
Africa	<b>1,850.2</b>	<b>12.1%</b>	1,432.8	13.5%
Others	<b>2,140.4</b>	<b>14.1%</b>	805.9	7.5%
Total	<b>15,231.9</b>	<b>100.0%</b>	10,588.9	100%

The Group's sales revenue increased by 43.9% as compared to the same period last year to RMB15,231.9 million for the first six months of 2007. Sales revenue from international sales continued to register solid growth, increasing by 99.0% to RMB7,970.6 million. Analysed by product, revenue from the wireless communications products, handsets and optical and data communications systems recorded growth from the corresponding period last year, offsetting decreases in sales revenue from wireline switch and access products and telecommunications software systems to result in significant growth in total sales revenue for the Group for the first six months of 2007 over the same period in the previous year.

The growth in sales revenue from the Group's wireless communications segment was attributable mainly to increased international sales of its CDMA and GSM systems and domestic sales of its GSM systems and TD-SCDMA systems.

The decline in sales revenue from the Group's wireline switch and access segment was mainly attributable to reduced investments in such equipment by carriers.

Growth in sales revenue of the Group's optical and data communications segment was mainly attributable to increased sales of optical communications systems and domestic sales of DSL products.

Sales revenue from the Group's handset product segment rose in tandem with substantial growth in the international sales of CDMA, 3G and GSM handsets.

Revenue generated from the sales of the Group's telecommunications software systems, services and other products declined as a result of the decrease in sales of the Group's video and network terminals.

## REPORT OF THE BOARD OF DIRECTORS

### 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 sales revenue and (2) the Group's gross profit and gross profit margin for the periods indicated:

Unit: RMB in millions

Product Segment	For the six months ended 30 June 2007		For the six months ended 30 June 2006	
	Cost of sales	As a percentage of revenue from the product segment	Cost of sales	As a percentage of revenue from the product segment
Wireless communications	<b>3,623.3</b>	<b>53.3%</b>	1,971.8	56.1%
Wireline switch and access	<b>373.8</b>	<b>63.1%</b>	684.2	63.6%
Optical and data communications	<b>1,735.8</b>	<b>68.2%</b>	1,229.7	71.9%
Handsets	<b>2,753.2</b>	<b>76.6%</b>	1,542.4	72.3%
Telecommunications software systems, services and other products	<b>1,355.9</b>	<b>79.7%</b>	1,466.7	68.0%
Total	<b>9,842.0</b>	<b>64.6%</b>	6,894.8	65.1%

Unit: RMB in millions

Product Segment	For the six months ended 30 June 2007		For the six months ended 30 June 2006	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Wireless communications	<b>3,178.1</b>	<b>46.7%</b>	1,541.6	43.9%
Wireline switch and access	<b>218.3</b>	<b>36.9%</b>	390.8	36.4%
Optical and data communications	<b>809.6</b>	<b>31.8%</b>	480.8	28.1%
Handsets	<b>839.3</b>	<b>23.4%</b>	591.7	27.7%
Telecommunications software systems, services and other products	<b>344.6</b>	<b>20.3%</b>	689.2	32.0%
Total	<b>5,389.9</b>	<b>35.4%</b>	3,694.1	34.9%

The cost of sales of the Group of the first half of 2007 increased 42.8% as compared to the same period last year to RMB9,842.0 million. The Group's overall gross profit margin improved slightly to 35.4% compared to 34.9% for the same period last year, primarily as a result of higher gross profit margin for wireless communications, wireline switch and access, optical and data communication products, although the increase was partially offset by reduced gross profit margin for handsets and telecommunications software systems, services and other products.

Cost of sales for the Group's wireless communications systems increased by 83.8% to RMB3,623.3 million, while the segment's gross profit margin was 46.7% compared to 43.9% for the same period last year. The higher gross profit margin for wireless communications systems mainly reflected improved gross profit margin for GSM systems.

Cost of sales for the Group's wireline switch and access products amounted to RMB373.8 million, reducing by 45.4% compared to the same period last year. Gross profit margin for the Group's wireline switch and access segment improved slightly to 36.9% from 36.4% for the same period last year.

Cost of sales for the Group's optical and data communications products amounted to RMB1,735.8 million, increasing by 41.2% compared to the same period last year. The increase in gross profit margin for the Group's optical and data communications segment to 31.8% from 28.1% for the same period last year was mainly attributable to the higher gross profit margin for optical communications systems.

## REPORT OF THE BOARD OF DIRECTORS

Cost of sales for the Group's handset products amounted to RMB2,753.2 million, increasing by 78.5% compared to the same period last year. Gross profit margin for the Group's handsets segment was lower at 23.4% as compared to 27.7% for the same period last year mainly in tandem with lower gross profit margin for international sales of GSM and CDMA handsets, although such decline was partially offset by the improvement in gross profit margin for 3G handsets.

Cost of sales for the Group's telecommunications software systems, services and other products amounted to RMB1,355.9 million, decreasing by 7.6% compared to the same period last year. Gross profit margin for the Group's telecommunications software systems, services and other products segment was 20.3%, compared to 32.0% for the same period last year. The decline reflected primarily increased sales of lower margin network terminal products combined with decreased sales of higher margin products, such as telecommunications operations and services, as a percentage of total sales revenue for the segment.

### **Other income and revenue, net**

Other income and revenue for the six months ended 30 June 2007 was RMB411.7 million, representing a 62.5% growth compared to RMB253.3 million recorded for the same period last year. The increase reflected primarily growth in VAT rebates for software products.

### **Research and development costs**

The Group's research and development costs for the first six months of 2007 increased by 21.2% to RMB1,521.5 million from RMB1,255.5 million for the same period last year, but decreased from 11.9% to 10.0% as a percentage of sales revenue. The decrease as a percentage of sales revenue despite growth in gross amount was mainly attributable to economies of scale and the capitalisation of partial research and development expenditure.

### **Selling and distribution costs**

The Group's selling and distribution costs for the first six months of 2007 increased by 55.5% to RMB2,484.3 million from RMB1,597.7 million for the same period last year, or from 15.1% to 16.3% as a percentage of sales revenue, mainly as a result of increased staff, travel, rental and transportation expenses in line with the expansion of our overseas market.

### **Administrative expenses**

Administrative expenses of the Group for the first half of 2007 increased by 40.0% to RMB912.5 million, as compared to RMB651.9 million for the same period last year, but decreased from 6.2% to 6.0% as a percentage of sales revenue mainly with the benefit of economies of scale achieved by the Company.

### **Other operating expenses, net**

The Group recorded other operating expenses of RMB154.4 million for the first six months of 2007, increasing by RMB218.6 million over the same period last year. This was primarily the result of an increase in bad debt provision and exchange losses.

### **Profit from operating activities**

The Group's profit from operating activities for the first six months of 2007 increased by 43.9% to RMB729.0 million from RMB506.6 million for the first six months of 2006 primarily as a result of increased sales revenue.

### **Finance costs**

Finance costs for the first six months of 2007 increased by 122.0% to RMB119.9 million from RMB54.0 million for the same period last year primarily as a result of the growth in interest expenses for the Company in line with larger amount of loans borrowed.

### **Tax**

The Group's income tax expense for the first six months of 2007 was RMB55.4 million, compared to RMB52 million for the same period last year, which represented a decrease from 11.5% to 9.1% as a percentage of pre-tax profit. The decrease was mainly attributable to the fact that subsidiaries registering stronger profit were entitled to tax concessions.

## REPORT OF THE BOARD OF DIRECTORS

### Profit attributable to minority interests

The Group's minority interests for the first six months of 2007 amounted to RMB95.6 million, representing a 76.4% growth as compared to RMB54.2 million for the same period last year, or an increase from 13.5% to 17.2% as a percentage of net profit. The rise was mainly attributable to increased profit contribution from 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 six months of 2007 increased by 32.5% to RMB459.8 million, compared to RMB347.1 million for the same period in 2006. Net profit margin (excluding minority interests) was lower at 3.0% compared to 3.3% for the same period in 2006.

### Cash flow data

Unit: RMB in millions

Item	For the six months ended 30 June 2007	For the six months ended 30 June 2006
Net cash outflow from operating activities	<b>(363.6)</b>	(2,909.7)
Net cash outflow from investing activities	<b>(635.4)</b>	(307.3)
Net cash inflow from financing activities	<b>2,349.7</b>	681.0
Net increase/(decrease) in cash and cash equivalents	<b>1,350.7</b>	(2,536.0)

### Operating activities

The Group had a net cash outflow from operating activities of RMB363.6 million for the first six months of 2007 compared to a net cash outflow of RMB2,909.7 million for the same period last year, reflecting mainly year-on-year increase in cash inflow from sales revenue of approximately RMB4,167.2 million following growth in sales revenue coupled with more effective cash collection and an increase in cash inflow of approximately RMB512.9 million from tax rebates. Cash outflow used in purchases increased by only RMB228.1 million as a result of enhanced suppliers' financing and the adoption of bills payable. Appropriations of inventory funds increased by approximately RMB1,822.8 million and R&D and marketing investments increased by approximately RMB892.9 million.

### Investing activities

The net cash outflow from the Group's investment activities for the first six months of 2007 was RMB635.4 million compared to a net cash outflow of RMB307.3 million for the same period last year. The cash was mainly used for building refurbishment in the expansion of the Group's operations and scale of production, including acquisition of equipment and facilities, testing apparatus, computers and additional office equipment, as well as in the construction of the ZTE Industrial Park in Shenzhen and research and development centers in Nanjing and Shanghai.

### Financing activities

The Group had a net cash inflow from financing activities for the first six months of 2007 of RMB2,349.7 million, which mainly represented bank loans in the amount of RMB2,658.3 million borrowed during the period, most of which being long-term loans.

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

In compliance with paragraph 40 of Appendix 16 to 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 in relation to those matters set out in paragraph 32 of Appendix 16 to the Hong Kong Stock Exchange Listing Rules from the information disclosed in the 2006 Annual Report of the Company.



## REPORT OF THE BOARD OF DIRECTORS

### **(IV) BUSINESS OUTLOOK AND RISK EXPOSURE FOR THE SECOND HALF OF 2007**

#### **1. Business outlook for the second half of 2007**

Aggressive investments in the domestic telecommunications sector are expected for the latter half of 2007. Internationally, rapid growth is also expected for emerging markets. The Group will continue to enhance international marketing and substantiate its product lines in CDMA2000, WCDMA and others. Meanwhile, we will also continue to identify opportunities for improvements in management efficiency and strive to add value for the Company. During the second half of 2007 the group will focus its efforts on the following:

- (1) enhancing the overall marketing capabilities of the Company.
- (2) enhancing its overall capabilities in commercial technologies.

#### **2. Risk exposures**

The ongoing expansion of the Group's international business demands a high level of skills in business operation to cope with foreign exchange risks and interest rate risks arising from differences in political, economic and legal systems and cultural traditions among various countries and regions as well as changes in the international political and economic environment. Foreign exchange risks, in particular, are expected to remain a key area of concern over the longer term.

## MATERIAL MATTERS

### (I) CORPORATE GOVERNANCE

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

During the reporting period, the Company formed a special task force to be in charge of the self-inspection and rectification works in the Company's corporate governance, in accordance with the Notice on Matters Pertaining to Special Activities in Strengthening Corporate Governance of Listed Companies (the "Notice") issued by the CSRC. The special task force conducted a full scale self-inspection of the Company in a pragmatic manner, in strict accordance with relevant laws and administrative regulations such as the Company Law and the Securities Law, as well as internal rules and regulations such as the Articles of Association and the working procedures of the three meetings. On 24 May 2007, the Fourth Meeting of the Fourth Session of the Board of Directors of the Company considered and approved the "Self-inspection Report and Rectification Proposal for Strengthening Corporate Governance". Such report has been published on the designated information disclosure website and the corporate governance platform of Shenzhen Stock Exchange. The Company has also organised an online symposium on corporate governance.

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

#### 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 Companies (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. Audit Committee

The Audit Committee of the Company has discussed with the management accounting standards and practices adopted by the Group, and has also discussed and reviewed the interim report, including the financial statements of the Group as at 30 June 2007 prepared in accordance with PRC GAAP and HKFRSs, respectively.

### (II) IMPLEMENTATION OF THE 2006 PROFIT DISTRIBUTION PROPOSAL

The 2006 profit distribution proposal of RMB1.50 (including tax) for every 10 shares on the basis of the Company's total share capital of 959,521,650 shares as at 31 December 2006 was considered and approved at the 2006 annual general meeting held on 15 June 2007. Implementation of the plan was completed with the record date being 26 July 2007 and the ex-rights/ex-dividend date being 27 July 2007, for A shares. In respect of H shares, the record date was 15 May 2007, and dividend payment date was 27 July 2007. An announcement containing details of dividend payment for 2007 in respect of the Company's A shares and H shares was published in the China Securities Journal, Securities Times and Shanghai Securities News on 20 July 2007.

### (III) PROFIT DISTRIBUTION PROPOSAL AND PROPOSAL FOR SHARE CAPITAL INCREASE BY WAY OF TRANSFER FROM RESERVES FOR THE SIX MONTHS ENDED 30 JUNE 2007

The Company does not propose any profit distribution or share capital increase by way of transfer from reserves for the six months ended 30 June 2007.

## MATERIAL MATTERS

### (IV) INFORMATION ON THE PHASE I SHARE INCENTIVE SCHEME OF THE COMPANY

#### 1. Progress of the Phase I Share Incentive Scheme during the reporting period

The Phase I Share Incentive Scheme of the Company was formulated by the Remuneration and Evaluation Committee of the Board of Directors of the Company to establish a long-term incentive mechanism closely linked with the Company's business performance and long-term strategy, so as to help optimise the overall remuneration structure and create a competitive advantage in human resources that will contribute to the long-term, sustainable growth of the Company's operation. Phase I of the Share Incentive Scheme (Draft) was approved at the nineteenth meeting of the third session of the Board of Directors of the Company on 25 October 2006. Thereafter the Company submitted Phase I of the Share Incentive Scheme (Draft) to the State-owned Assets Management Commission under the State Council and CSRC for approval in accordance with relevant State regulations. The Remuneration and Evaluation Committee thereafter revised the scheme according to the comments of relevant regulatory authorities, and Phase I of the Share Incentive Scheme (Revised Version) was approved at the twentieth meeting of the third session of the Board of Directors of the Company on 15 December 2006. To further improve Phase I of the Share Incentive Scheme, the Company further revised Phase I of the Share Incentive Scheme (Revised Version). A no comment letter was issued by CSRC with respect to the Phase I of the Share Incentive Scheme (Version Dated 5 February 2007), which was then approved at the First Extraordinary General Meeting of the Company for 2007 on 13 March 2007.

The Phase I of the Share Incentive Scheme (Version Dated 5 February 2007) of the Company was published on the website designated for information disclosure on 14 February 2007.

Relevant Scheme Participants of the Phase I Share Incentive Scheme of the Company paid subscription amounts for their Subject Shares between 14 March 2007 and 18 March 2007, which will be used as additional working capital for the Company.

2. Please refer to Note II.21 and Note V.30 to the financial statements prepared under PRC GAAP and Note 5 to the financial statements prepared under HKFRSs and the section headed "Material Matters" set out in the 2006 annual report for details of the effect of the Phase I Share Incentive Scheme of the Company on the current and future financial conditions and operating results of the Company.

### (V) MATERIAL LITIGATION OR ARBITRATION OF THE GROUP OCCURRING OR SUBSISTING DURING THE REPORTING PERIOD

The Group was not subject to any material litigation or arbitration during the reporting period. Progress during the reporting period of other litigation and arbitration incurred during previous periods is reported as follows:

An administrative penalty notice had been served upon Zhongxing Telecom Pakistan (Pvt) Ltd, a subsidiary of the Company (the "Pakistanis Subsidiary"), by the Rawalpindi Collectorate of Customs of Pakistan (the "Rawalpindi Collectorate") in respect of a claim of additional custom duties of approximately RMB23.9 million and a fine of approximately RMB324 million for the misdeclaration of the imported goods by the Pakistanis Subsidiary (For details please refer to the 2006 Annual Report of the Company).

Following negotiations between the Group and the Rawalpindi Collectorate held in June 2007, the Rawalpindi Collectorate agreed that the fine might be exempted if the Pakistanis Subsidiary made a remedial tax payment of 177 million Pakistan Rupee (approximately RMB22 million) before 30 June 2007. Such payment had been made by the Pakistanis Subsidiary before 30 June 2007. Subsequently, the Rawalpindi Collectorate issued a notice to the Pakistanis Subsidiary demanding the payment of an addition tax amount of approximately 62 million Pakistan Rupee (approximately RMB8 million). Based on the legal opinion on the dispute furnished by the lawyer engaged by the Company, the Directors were of the view that the Group had sufficient documentary evidence to defend itself against such payment. This matter would not have any material adverse impact on the Group's current financial position and operating results.

There was no substantial progress during the reporting period in respect of the other litigation and arbitration proceedings disclosed in the 2006 annual report of the Company. The Company will make timely announcements in the event of any substantial progress of such matters.

## MATERIAL MATTERS

**(VI) 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. SECURITIES INVESTMENT OF ZTE (H.K.) LIMITED (“ZTE HK”), A WHOLLY-OWNED SUBSIDIARY OF THE COMPANY DURING THE REPORTING PERIOD IS AS FOLLOWS:**

In December 2006, China Communications Services Company Limited (“China Communications Services”, stock code: 0552) launched a global offering of H shares for listing on the main board of the Stock Exchange of Hong Kong, in which the Company subscribed for 17,674,000 H shares through ZTE HK, a wholly-owned subsidiary at a price of HK\$2.20 per share for a total subscription amount of HK\$38.88 million approximately (excluding related brokerage, SFC transaction levy and Stock Exchange trading fee). The number of shares subscribed accounted for approximately 0.32% of the issued share capital of China Communications Services.

ZTE HK disposed of all the H shares in China Communications Services held by the end of January 2007 and recorded a net gain of approximately HK\$44.51 million.

No	Type of securities	Stock code	Abbreviated name of stock	Investment cost (HK\$ in ten thousands)	Number of shares purchased (shares)	Book value at the end of the period	As a percentage of total investment in securities at the end of the period	Gain/loss for the reporting period (HK\$ in ten thousands)
1	H shares	0552	China Communications Services	3,888	17,674,000	N/A	N/A	497

**(VII) THE GROUP WAS NOT ENGAGED IN ANY MATERIAL ACQUISITION, DISPOSAL OR ASSET RESTRUCTURING OCCURRING OR SUBSISTING DURING THE REPORTING PERIOD.**

**(VIII) THE GROUP’S SIGNIFICANT CONNECTED TRANSACTIONS UNDER DOMESTIC LAWS AND REGULATIONS**

1. The Group did not conduct any purchases 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 VII to the financial statements prepared under PRC GAAP 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 parties in similar quantities. The prices at which properties were leased to the Group by connected parties were not higher than 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 on the connected transactions agreements between the Group and the connected parties, estimated transaction amounts for 2007 under the agreements, impact of the connected transactions on the Group and review of the connected transactions by general meeting or the Board of Directors of the Company, please refer to the “Announcement Regarding Ongoing Connected Transactions 2007” and “Announcement Regarding Connected Transactions” published by the Company in the China Securities Journal, Securities Times and Shanghai Securities News on 26 October 2006 and 19 April 2007.

## MATERIAL MATTERS

Classification of transaction	Member of the Group (party to connected transaction)	Connected party (counterparty to connected transaction)	Subject matter	Pricing basis	Transaction prices	Amounts	As a percentage of transactions in the same classification	Settlement	Whether different from estimated status
						for connected transactions from January to June 2007 (excluding VAT) (RMB in 10,000)			
Purchase of raw materials	ZTE Kangxun	Zhongxingxin and its subsidiaries Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou	Various products such as cabinets, cases, distribution equipment, soft circuit boards and shelters	Consistent with market prices (as per contract)	Cabinets: RMB2,000 – RMB15,000 per unit; cases: RMB40 – RMB4,000 per unit depending on level of sophistication; distribution frames and accessories: RMB2 – RMB600 per unit depending on level of sophistication; Flexible printed circuit boards (FPC): Two-sided: RMB0.15 – RMB0.18 per sq. m. One-sided: RMB0.1 – RMB0.15 per sq. m.; Shelter, RMB30,000 – RMB100,000 per unit, depending on measurement, materials used and configuration.	27,011	2.79%	Banker's acceptance bill	No
		Zhongxing WXT and its subsidiary Shenzhen Gaodonghua Communication Technology Co., Ltd.	IC, connector assemblies, optical devices, modules and other ancillary equipment	Consistent with market prices (as per contract)	IC (built-in): RMB100 – RMB1,000 per unit depending on brand, capacity and technical parameters; plugs and connectors: RMB1 – RMB50 per unit depending on the structure and raw materials; Optical components: RMB120 – RMB17,500 per unit, depending on materials performance	5,210	0.54%	Banker's acceptance bill	No
		Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Communications antennas and radio frequency transmission devices	Consistent with market prices (as per contract)	Communication antenna: RMB320 – RMB2500 per piece depending on technical parameters and functional features; radio frequency transmitter, RMB350 – RMB4100 per unit, depending on technical parameters and functional features.	12,867	1.33%	Banker's acceptance bill	No
Property Leasing	ZTE	Zhongxingxin (lessor)	Property located at No. 800 Tianfu Avenue Central, Chengdu, Sichuan with a leased area of 15,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB40/sq. m. (ZTE will be responsible for property management and management fees are not payable)	123	0.83%	Banker's acceptance bill	No
		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)	418	2.83%	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.	Consistent with market prices (as per contract)	Monthly rent of RMB115/sq. m. (ZTE will be responsible for property management and management fees are not payable)	578	3.91%	Banker's acceptance bill	No

Note: The property leasing transaction amounts set out above represent transaction amounts incurred during April to June 2007.

- The Company did not enter into any connected transactions relating to any material acquisition or disposal of assets during the reporting period.
- The debtors and creditors 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.
- 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.

## MATERIAL MATTERS

### (IX) 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 in favour of subsidiaries)						
Guaranteed party	Date of incurrence (date of execution of relevant agreements)	Amounts guaranteed	Type of guarantee	Term	Whether fully performed	Whether provided in favour of 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 RMB12,507,900)	Assurance	3 years	No	No
Total amount guaranteed during the reporting period				—		
Total balance of amount guaranteed at the end of the reporting period (A)				RMB50 million 73,923,700 Indian Rupee		
Guarantees provided in favour of subsidiaries						
Total amount guaranteed in favour of subsidiaries during the reporting period				—		
Total balance of amount guaranteed in favour of subsidiaries at the end of the reporting period (Note 2)				US\$3 million		
Total amount guaranteed among subsidiaries during the reporting period				—		
Total balance of amount guaranteed among subsidiaries at the end of the reporting period				RMB47,015,000 US\$117,600		
Total balance of amount guaranteed in favour of subsidiaries at the end of the reporting period (B)				RMB47,015,000 US\$3,117,600		
Total amount guaranteed by the Company (including guarantees in favour of subsidiaries)						
Total guaranteed amount (A+B) (Note 3)				RMB133,265,000		
Total guaranteed amount as a percentage of net assets of the Company at the end of the reporting period				1.19%		
Of which:						
Amounts of guarantees provided in favour of shareholders, de facto controllers and their connected parties (C)				—		
Amount of debt guarantee provided directly or indirectly in favour of parties with a gearing ratio exceeding 70% (D)				—		
Amount of total guarantee exceeding 50% of net assets (E)				—		
Aggregated amount of the three guarantee amounts stated above (C+D+E)				—		

Note 1: Guarantee in favour of United Telecoms Limited in 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: Provided by the Company in favour of ZTE (H.K.) Limited, a wholly-owned subsidiary.

Note 3: Guaranteed amounts denominated in Indian Rupees are translated at the exchange rate of 1 Indian Rupee to RMB0.1692 (being the exchange rate published by the People's Bank of China on 29 June 2007). Guaranteed amounts denominated in US dollars are translated at the exchange rate of US\$1 to RMB7.6155 (being the exchange rate published by the People's Bank of China on 29 June 2007).

Note 4: All external guarantees of the Company shall be submitted to the Board of Directors for its review and shall require the approval of two-thirds of the members of the Board. If such external guarantees are otherwise subject to review and approval at the general meeting, then they shall be tabled at the general meeting following approval by the Board of Directors.

## MATERIAL MATTERS

(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 RMB1.65 million to the Company, and an amount of RMB1.85 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. Specific explanation and independent opinion furnished by the Independent Directors Mr. Zhu Wuxiang, Mr. Chen Shaohua, Mr. Qiao Wenjun, Mr. Mi Zhengkun and Mr. Li Jin on the transaction amounts between the Company and its connected parties and the Company's external guarantees:

- (1) The transaction amounts between the Company and its controlling shareholder and other connected parties were incurred in the course of normal sales and purchases of goods, which had been based on fair market prices without acting adversely to the interests of the Company. There was no misappropriation of the Company's funds by the Company's controlling shareholder and its subsidiaries and other connected parties.
- (2) The Company exercised strict control over the provision of external guarantees in accordance with relevant requirements of the Articles of Association. The information on guarantees disclosed in the 2007 interim report is true and the Company did not enter into any illicit guarantees or connected party guarantees.
- (3) After careful review of the "Notice Concerning the Regulation of External Guarantees Provided by Listed Companies" (Zheng Jian Fa [2005] No. 120) and "Notice Regarding Certain Issues on Regulating Transaction Amounts Between Listed Companies and Connected Parties and External Guarantees Provided by Listed Companies" (Zheng Jian Fa [2003] No. 56), the Independent Directors of the Company are of the opinion that the Company has diligently implemented relevant provisions of the Notices without any violations.
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		
2	Commercial contract for the construction of trial network for TD-SCDMA scale network technology application with China Mobile	11 June 2007	China Securities Journal Securities Times Shanghai Securities News	In normal progress
3	Amendment of the 2006 – 2007 Chip Purchase Framework Agreement signed in April 2006 with QUALCOMM			

## MATERIAL MATTERS

### (X) UNDERTAKINGS

#### 1. Undertakings relating to the Share Reform

- (1) The statutory undertaking and special undertaking given by Zhongxingxin, the largest shareholder of the Company in respect of the A Share Reform are set out the section headed “Shareholdings of top ten shareholders of the Company subject to lock-up and lock-up conditions” of this report.
- (2) The aforesaid undertaking was duly performed and there were no violations.

As at the end of the reporting period, changes in the circulating shares held by Zhongxingxin not subject to lock-up are as follows:

Name of shareholder	Number of circulating shares not subject to lock-up held on the date of listing of the shares subject to lock-up (shares)	Increase/decrease during the reporting period (shares)	Reason for change	Number of circulating shares not subject to lock-up held at the end of the reporting period (shares)
Zhongxingxin	47,976,083	18,414,485	disposal of shares	29,561,598

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

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

Nature	Location	Time	Mode	Audience received	Contents of discussion	Materials furnished
Presentation of the Company	Hong Kong	April 2007	2006 results presentation	Analysts and investors	2006 Annual Report	Published regular reports
	Company	April 2007	Teleconference	Analysts and investors	First quarterly report 2007	Published regular reports
External meetings	Hong Kong	May 2007	Citibank presentation	Customers of Citibank	Day-to-day operations of the Company	Published regular reports
	Shanghai	May 2007	CLSA presentation	Customers of CLSA	Day-to-day operations of the Company	Published regular reports
	Yunnan	June 2007	CITIC Securities presentation	Customers of CITIC Securities	Day-to-day operations of the Company	Published regular reports
Company visits by analysts	<b>Overseas investors</b>					
	Company	During the first six months of 2007	Verbal	UOB Kay Hian, Credit Suisse, Lehman Brothers, CLSA, Deutsche Bank, Goldman Sachs, Pacific Crest Securities Inc., Citibank, Morgan Stanley, Fidelity Funds, First State Investment Fund, HALBIS Fund, Capital Fund, Wellington Fund, UBS, Nikko Asset Management, Nomura Securities	Day-to-day operations of the Company	Published regular reports
	<b>Domestic investors</b>					
	Company	During the first six months of 2007	Verbal	GTJA Allianz Fund, ICBC Credit Suisse Fund, BOC Schroders Fund, Franklin Templeton Sealand Fund, Changsheng Fund, Bao Ying Fund, CICC, Guotai Junan Securities, Guosen Securities, CITIC Securities, Rongtong Fund, China AMC Fund, Guotai Fund	Day-to-day operations of the Company	Published regular reports



## MATERIAL MATTERS

**(XII) THERE WAS NO REPLACEMENT OR DISMISSAL OF ACCOUNTANT FIRM BY THE COMPANY DURING THE REPORTING PERIOD.**

**(XIII) 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, 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**

**(XIV) INDEX OF INFORMATION DISCLOSURE DURING THE REPORTING PERIOD**

Date	Newspaper	Page No	Announcements
12 January 2007	China Securities Journal	A16	1. Announcement on the re-election of the Board of Directors 2. Announcement on the re-election of the Supervisory Committee
	Shanghai Securities News	D9	
	Securities Times	C6	
24 January 2007	China Securities Journal	B09	Announcement on the Disposal of Shares by Holders of Shares Subject to Lock-up
	Shanghai Securities News	D14	
	Securities Times	A8	
25 January 2007	China Securities Journal	A17	Announcement of Resolutions Passed at the Twenty First Meeting of the Third Session of the Board of Directors
	Shanghai Securities News	D14	
	Securities Times	C6	
29 January 2007	China Securities Journal	B12	1. Announcement of Resolutions Passed at the Twenty Second Meeting of the Third Session of the Board of Directors 2. Announcement of Resolutions Passed at the Twelfth Meeting of the Third Session of the Supervisory Committee 3. Notice Convening of the Second Extraordinary General Meeting of 2007
	Shanghai Securities News	A9	
	Securities Times	A11	
14 February 2007	China Securities Journal	C009	1. Announcement of the Board of Directors 2. Phase I of the Share Incentive Scheme (Version dated 5 February 2007) 3. Notice Convening of the First Extraordinary General Meeting of 2007 (Revised) 4. Report on the Solicitation of Voting Rights by the Independent Directors
	Shanghai Securities News	D9, D10	
	Securities Times	C5	
26 February 2007	China Securities Journal	B04	Indicative Announcement on the Convening of the First Extraordinary General Meeting of 2007
	Shanghai Securities News	A8	
	Securities Times	A4	
12 March 2007	China Securities Journal	D004	Indicative Announcement on the Convening of the Second Extraordinary General Meeting of 2007
	Shanghai Securities News	A8	
	Securities Times	A5	
14 March 2007	China Securities Journal	D008	1. Announcement of Resolutions Passed at the First Extraordinary General Meeting of 2007 2. Announcement of Resolutions Passed at the Twenty Third Meeting of the Third Session of the Board of Directors
	Shanghai Securities News	D6	
	Securities Times	C9	
2 April 2007	China Securities Journal	C004	1. Announcement of Resolutions Passed at the Second Extraordinary General Meeting of 2007 2. Announcement of Resolutions Passed at the First Meeting of the Fourth Session of the Board of Directors 3. Announcement of the Board of Directors 4. Announcement of Resolutions Passed at the First Meeting of the Fourth Session of the Supervisory Committee
	Shanghai Securities News	A22	
	Securities Times	C8	
9 April 2007	China Securities Journal	C004	Clarification Announcement of the Board of Directors on Material Matters
	Shanghai Securities News	A16	
	Securities Times	C4	

## MATERIAL MATTERS

**(XIV) INDEX OF INFORMATION DISCLOSURE DURING THE REPORTING PERIOD** (continued)

Date	Newspaper	Page No	Announcements
19 April 2007	China Securities Journal Shanghai Securities News Securities Times	C053, C055 D25 C41, C42	1. 2006 Annual Report Summary 2. Announcement of Resolutions Passed at the Second Meeting of the Fourth Session of the Board of Directors 3. Announcement of Resolutions Passed at the Second Meeting of the Fourth Session of the Supervisory Committee 4. Notice Convening the 2006 Annual General Meeting 5. Announcement of Connected Transactions
26 April 2007	China Securities Journal Shanghai Securities News Securities Times	C031 D17 C36	First Quarterly Report 2007
30 April 2007	China Securities Journal Shanghai Securities News Securities Times	B20 A14 C105	Announcement of the Board of Directors
29 May 2007	China Securities Journal Shanghai Securities News Securities Times	C017 D16 B8	Indicative Announcement on the Convening of the 2006 Annual General Meeting
11 June 2007	China Securities Journal Shanghai Securities News Securities Times	B08 A17 C5	Announcement of the Board of Directors
18 June 2007	China Securities Journal Shanghai Securities News Securities Times	B08 A11 C9	Announcement of Resolutions Passed at the 2006 Annual General Meeting
26 June 2007	China Securities Journal Shanghai Securities News Securities Times	C005 D14 C16	Announcement of Resolutions Passed at the Fifth Meeting of the Fourth Session of the Board of Directors
11 July 2007	China Securities Journal Shanghai Securities News Securities Times	C005 Cover 10 C17	1. Self-inspection Report and Rectification Proposal for Strengthening Corporate Governance 2. Announcement of the Online Symposium on Corporate Governance held by the Company
20 July 2007	China Securities Journal Shanghai Securities News Securities Times	C009 D64 C12	Announcement of Dividend Distribution for 2006
23 July 2007	China Securities Journal Shanghai Securities News Securities Times	C008 A16 C8	1. Announcement of Resolutions Passed at the Sixth Meeting of the Fourth Session of the Board of Directors 2. Announcement of External Guarantees

Note: The above table includes information disclosure in China and on <http://www.cninfo.com.cn>

## BALANCE SHEET

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

Assets	Note V	30 June 2007		31 December 2006	
		Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited) (Restated)	Company (Audited) (Restated)
<b>Current assets:</b>					
Cash and cash equivalents	1	5,607,020	4,188,415	4,311,060	2,957,920
Tradable financial assets	2	24,811	24,811	33,288	—
Bills receivable	3	2,876,845	2,833,999	1,658,406	1,617,133
Trade receivables	4	5,829,820	6,826,913	5,329,628	5,753,208
Factored trade receivables	5	149,715	274,715	152,848	275,830
Prepayments	6	296,791	131,296	51,757	20,619
Dividends receivable		1,136	817,631	1,136	817,631
Other receivables	7	667,025	1,255,651	439,904	1,220,098
Inventories	8	4,200,288	1,618,097	2,481,155	1,179,106
Amount due from customers for contract work	9	9,309,086	8,619,067	5,833,480	5,809,647
<b>Total current assets</b>		<b>28,962,537</b>	<b>26,590,595</b>	20,292,662	19,651,192
<b>Non-current assets:</b>					
Available-for-sale financial assets	10	43,488	41,488	43,488	41,488
Long-term trade receivables	4	328,166	328,166	372,703	328,166
Factored long-term trade receivables	5	2,234,427	2,234,427	1,399,206	1,394,970
Long-term equity investments	11	51,902	2,598,981	57,193	2,599,677
Fixed assets	12	2,653,537	1,704,313	2,591,858	1,611,968
Construction in progress	13	718,625	620,170	469,636	402,430
Intangible assets	14	182,757	79,412	152,859	78,456
Development costs		196,590	196,590	129,751	129,751
Deferred tax assets	15	250,000	235,479	210,923	194,547
Long-term deferred assets	16	47,396	—	40,416	—
<b>Total non-current assets</b>		<b>6,706,888</b>	<b>8,039,026</b>	5,468,033	6,781,453
<b>Total assets</b>		<b>35,669,425</b>	<b>34,629,621</b>	25,760,695	26,432,645

The notes on page 138 to 194 form an integral part of these financial statements.

The financials on page 132 to 194 have been signed by:

Legal representative of the Company:  
Hou Weigui

Chief Financial Officer:  
Wei Zaisheng

Head of Finance Division:  
Shi Chunmao

## BALANCE SHEET

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

Liabilities and Equity	Note V	30 June 2007		31 December 2006	
		Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited) (Restated)	Company (Audited) (Restated)
<b>Current liabilities:</b>					
Short-term loans	17	1,064,238	951,938	945,726	741,827
Bank advances on factored trade receivables	5	149,715	274,715	152,848	275,830
Tradable financial liabilities		3,689	3,689	3,689	3,689
Bills payable	18	4,796,376	3,438,078	2,242,566	2,187,595
Trade payables	19	7,758,759	10,495,952	4,749,099	6,704,325
Amount due to customers for contract work	9	1,557,914	1,523,494	996,275	991,612
Advances from customers	20	1,378,114	1,019,568	635,875	513,954
Accrued payroll	21	876,691	525,287	1,090,862	760,039
Taxes payable	22	(1,089,835)	(850,740)	(690,767)	(615,741)
Dividends payable	23	198,480	144,306	83,941	378
Other payables	24	1,170,747	1,214,499	708,190	701,721
Deferred income		56,813	7,555	66,273	14,404
Provision	25	142,329	93,917	291,832	243,417
Long-term liabilities due within one year	26	580,000	580,000	—	—
<b>Total current liabilities</b>		<b>18,644,030</b>	<b>19,422,258</b>	11,276,409	12,523,050
<b>Long-term liabilities:</b>					
Long-term loans	27	2,827,115	1,767,318	1,679,242	1,329,478
Bank advances on factored long-term receivables	5	2,234,427	2,234,427	1,399,206	1,394,970
Specific payables	28	80,000	80,000	80,000	80,000
<b>Total long-term liabilities</b>		<b>5,141,542</b>	<b>4,081,745</b>	3,158,448	2,804,448
<b>Total liabilities</b>		<b>23,785,572</b>	<b>23,504,003</b>	14,434,857	15,327,498
<b>Equity:</b>					
Share capital	29	959,522	959,522	959,522	959,522
Capital surplus	30	5,658,500	5,684,828	5,509,666	5,535,994
Surplus reserve	31	1,331,059	769,603	1,331,059	769,603
Retained profit	32	3,312,491	3,715,822	2,996,579	3,843,606
Exchange differences		(41,145)	(4,157)	(32,880)	(3,578)
Equity attributable to equity holders of the parent		11,220,427	11,125,618	10,763,946	11,105,147
Minority interests		663,426	—	561,892	—
<b>Total equity</b>		<b>11,883,853</b>	<b>11,125,618</b>	11,325,838	11,105,147
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>35,669,425</b>	<b>34,629,621</b>	25,760,695	26,432,645

The notes on page 138 to 194 form an integral part of these financial statements.

The financials on page 132 to 194 have been signed by:

Legal representative of the Company:  
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Shi Chunmao

\* Figures presented in the 2007 statements are unaudited. Figures presented in the 2006 statements have been adjusted in accordance with the new accounting standards based on audited data.

## INCOME STATEMENT

(Prepared under PRC GAAP)

(All amounts in RMB'000 unless otherwise stated)

(English translation for reference only)

	Note V	Six months ended 30 June 2007		Six months ended 30 June 2006	
		Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited) (Restated)	Company (Unaudited) (Restated)
<b>I Revenue</b>	33	<b>15,231,932</b>	<b>14,604,842</b>	10,588,900	9,967,346
Less: Cost of sales	33	<b>9,678,382</b>	<b>12,210,009</b>	6,811,594	7,883,770
Taxes and surcharges	34	<b>117,254</b>	<b>17,189</b>	43,944	18,395
Selling and distribution expenses		<b>2,418,877</b>	<b>1,631,800</b>	1,567,996	909,625
General and administrative expenses		<b>958,901</b>	<b>589,820</b>	689,263	533,484
Research and development costs		<b>1,521,489</b>	<b>570,543</b>	1,255,474	387,723
Finance expenses	35	<b>190,368</b>	<b>236,433</b>	54,064	72,993
Losses on impairment of assets	36	<b>95,920</b>	<b>30,785</b>	(65,591)	(75,098)
Add: Gains from the change in fair value	37	<b>24,811</b>	<b>24,811</b>	—	—
Investment gains	38	<b>8,766</b>	<b>678,680</b>	694	—
Including: Gains from investments in associates and jointly-controlled entities		<b>1,018</b>	<b>1,018</b>	694	—
<b>II Operating profit</b>		<b>284,318</b>	<b>21,754</b>	232,850	236,454
Add: Non-operating income	39	<b>374,744</b>	<b>37,111</b>	226,999	37,428
Less: Non-operating expenses	40	<b>48,211</b>	<b>42,719</b>	6,534	3,634
Including: Gains/losses from the disposal of non-current assets		<b>5,683</b>	<b>2,151</b>	3,765	3,634
<b>III Total profit</b>		<b>610,851</b>	<b>16,146</b>	453,315	270,248
Less: Income tax		<b>55,444</b>	—	52,017	22,783
<b>IV Net profit</b>		<b>555,407</b>	<b>16,146</b>	401,298	247,465
Net profit attributable to equity holders of the parent		<b>459,840</b>	<b>16,146</b>	347,058	247,465
Minority interests		<b>95,567</b>	—	54,240	—
<b>V Earnings per share</b>					
(1) Earnings per share, basic		<b>RMB0.48</b>		RMB0.36	
(2) Earnings per share, diluted		<b>RMB0.48</b>		RMB0.36	

The notes on page 138 to 194 form an integral part of these financial statements.

The financials on page 132 to 194 have been signed by:

Legal representative of the Company:  
Hou Weigui

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Head of Finance Division:  
Shi Chunmao

\* Figures presented in the 2007 statements are unaudited. Figures presented in the 2006 interim financial statements have been adjusted in accordance with the new accounting standards based on unaudited data.

## CASH FLOW STATEMENT

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

	Note V	Six months ended 30 June 2007		Six months ended 30 June 2006	
		Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
<b>I. Cash flows from operating activities</b>					
Cash received from sale of goods or rendering of services		13,121,717	11,800,537	8,954,497	8,340,632
Cash received from taxes refunds		1,012,729	745,943	499,777	314,174
Cash received relating to other operating activities		56,064	41,033	49,949	41,697
Sub-total of cash inflows from operating activities		14,190,510	12,587,513	9,504,223	8,696,503
Cash paid for goods and services		8,463,171	9,848,361	8,235,078	8,975,068
Cash paid to and on behalf of employees		2,750,464	1,120,386	2,080,913	968,665
Cash paid for all types of taxes		835,485	73,003	562,541	83,894
Cash paid relating to other operating activities	41	2,353,385	1,308,906	1,460,484	1,315,011
Sub-total of cash outflows from operating activities		14,402,505	12,350,656	12,339,016	11,342,638
<b>Net cash flows from operating activities</b>		<b>(211,995)</b>	<b>236,857</b>	<b>(2,834,793)</b>	<b>(2,646,135)</b>
<b>II. Cash flows from investing activities</b>					
Cash received from sale of investments		18,067	1,844	—	—
Cash received from return on investments		32,609	6,295	126	5,630
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,867	—	1,743	1,141
Sub-total of cash inflows from investing activities		52,543	8,139	1,869	6,771
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		768,990	636,022	362,628	293,957
Cash paid for acquisition of investments		4,113	1,551	6,843	—
Sub-total of cash outflows from investing activities		773,103	637,573	369,471	293,957
<b>Net cash flows from investing activities</b>		<b>(720,560)</b>	<b>(629,434)</b>	<b>(367,602)</b>	<b>(287,186)</b>

## CASH FLOW STATEMENT

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

	Note V	Six months ended 30 June 2007		Six months ended 30 June 2006	
		Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
<b>III. Cash flows from financing activities</b>					
Cash received from capital contributions		503,283	493,718	—	—
Cash received from borrowings		2,658,327	1,993,116	844,700	800,000
Sub-total of cash inflows from financing activities		3,161,610	2,486,834	844,700	800,000
Cash repayment of borrowings		811,943	765,166	163,696	100,000
Cash paid for distribution of dividends and for interest expenses		117,963	95,490	62,482	45,819
Sub-total of cash outflows from financing activities		929,906	860,656	226,178	145,819
Net cash flows from financing activities		2,231,704	1,626,178	618,522	654,181
<b>IV. Net effect of exchange fluctuations</b>		(3,189)	(3,106)	(8,550)	(4,610)
<b>V. Net increase/(decrease) in cash and cash equivalents</b>		1,295,960	1,230,495	(2,592,423)	(2,283,750)
Add: Cash and cash equivalents at beginning of period		4,311,060	2,957,920	5,573,132	4,258,936
<b>VI. Cash and cash equivalents at end of period</b>		5,607,020	4,188,415	2,980,709	1,975,186

The notes on page 138 to 194 form an integral part of these financial statements.

The financials on page 132 to 194 have been signed by:

Legal representative of the Company:  
Hou Weigui

Chief Financial Officer:  
Wei Zaisheng

Head of Finance Division:  
Shi Chunmao

## CASH FLOW STATEMENT

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

	Six months ended 30 June 2007		Six months ended 30 June 2006	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
<b>I Reconciliation of net profit to cash flows from operating activities</b>				
Net profit	555,407	16,146	401,298	247,465
Add: Provision for impairment of assets	95,920	30,785	(65,591)	(75,098)
Depreciation of fixed assets	253,327	126,243	216,937	136,405
Amortisation of intangible assets	26,300	20,549	24,911	20,766
Losses/(gains) from change in fair value	(24,811)	(24,811)	—	—
Loss on disposal of fixed assets, intangible assets and other long-term assets	5,683	2,151	3,765	3,634
Finance expenses	148,690	98,017	36,767	49,721
Investment gains	(8,766)	(678,680)	(694)	—
Increase in deferred tax assets	(39,077)	(40,932)	(83)	—
Decrease/(Increase) in inventories	(1,940,033)	(821,069)	(117,288)	268,827
Increase in operating receivables	(4,947,251)	(3,011,196)	(2,271,294)	(2,684,290)
Increase/(decrease) in operating payables	5,513,782	4,370,820	(1,063,521)	(613,565)
Share incentive scheme costs	148,834	148,834	—	—
<b>Net cash flows from operating activities</b>	<b>(211,995)</b>	<b>236,857</b>	<b>(2,834,793)</b>	<b>(2,646,135)</b>
<b>II. Investing and financing activities that do not involve cash receipts and payments</b>				
Conversion of debt to capital	—	—	—	—
Convertible bonds maturing within one year	—	—	—	—
Fixed assets held under finance leases	—	—	—	—
<b>III Net increase/(decrease) in cash and cash equivalents</b>				
Cash at end of period	5,607,020	4,188,415	2,980,709	1,975,186
Less: Cash at beginning of period	4,311,060	2,957,920	5,573,132	4,258,936
Add: Cash equivalents at end of period	—	—	—	—
Less: Cash equivalents at beginning of period	—	—	—	—
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,295,960</b>	<b>1,230,495</b>	<b>(2,592,423)</b>	<b>(2,283,750)</b>

The notes on page 138 to 194 form an integral part of these financial statements.

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\* Figures presented in the 2007 statements are unaudited. Figures presented in the 2006 interim financial statements have been adjusted in accordance with the new accounting standards based on unaudited data.



## NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

(All amounts in RMB'000 unless otherwise stated)

### I. COMPANY 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 Co., Ltd. Fortune Trust & Investment Co., Ltd. transferred its entire shareholdings in the Company to Jade Dragon (Mauritius) Company Limited in November 2005.

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 (revised), and was issued a Corporate Business License (license no.: Shen Si Zi N35868). The Company and its subsidiaries mainly engaged in the production of remote control switch systems, multi-media 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 electronic devices, micro-electronic components (excluding franchised, state-controlled and monopolized 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 labours 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 monopolized 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); specialized sub-contracting of telecommunications projects.

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. As at 30 June 2007, the total accumulated share capital in issue of the Company was 959,521,650 shares. Please see Notes V.29 for details.

## NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)  
(All amounts in RMB'000 unless otherwise stated)

### II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS

The financial information set out in the financial statements was prepared in accordance with the following principal accounting policies and accounting estimates which were proposed in accordance with Accounting Standards for Business Enterprises and "Accounting System for Business Enterprises" and other related supplementary regulations as issued by China.

#### 1. Accounting system

The Group has implemented Accounting Standards for Business Enterprises and related supplementary regulations.

#### 2. Financial year

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

#### 3. 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 subsidiaries, jointly controlled entities and associates of the Group shall determine their respective reporting currencies at their own discretion taking into account the economic environment in which they operate and translate amounts in such currencies into RMB in preparing the financial statements.

#### 4. Recording basis and accounting

The Company adopted the accrual basis as the basis of accounting. All items were recorded at historical cost.

#### 5. Foreign currency transaction

Foreign currency transactions are translated into the reporting currency at the exchange rates quoted by the People's Bank of China prevailing at the beginning of the month.

At the end of the period, balance of foreign currency accounts is adjusted at the mid-point exchange rates quoted at the end of the period. Exchange differences arising from these translations are recorded in the current income statement as profit or loss from exchange differences. Foreign exchange gain or loss arising from special borrowings in foreign currency to finance the acquisition or construction of fixed assets are dealt with according to the principle of the capitalization of borrowing costs.

#### 6. Foreign currency translation

All assets and liabilities were translated to Renminbi at the exchange rates prevailing at the balance sheet date; shareholders' equity, with the exception of "undistributed profit", was translated at the exchanged rates prevailing at the transaction date; "undistributed profit" was recorded based on the amount stated on the statement of income and profit appropriation after translation adjustments; differences arising from the difference between total translated assets and the sum of total translated liabilities and translated shareholders' equity were dealt with in the exchange fluctuation reserve as a separate allocation of "exchange differences". All statement of income and profit appropriation items were translated at the average exchange rates during the year. All cash flow statement items were translated at exchange rates prevailing at the balance sheet date. All opening balances and last year actual amounts were stated at last year's translated amounts.

#### 7. Cash equivalents

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

## NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

(All amounts in RMB'000 unless otherwise stated)

### II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

#### 8. Tradable financial assets

Tradable financial assets are initially recognised at fair value and subsequently re-assessed at each balance sheet date. Any differences arising are dealt with as gain/loss arising from changes in fair value for the current period.

#### 9. Bad debts provision

(1) Recognition criteria for bad debts:

- The irrecoverable amount of a bankrupt or deceased debtor who had insufficient assets or estate to repay the debt;
- The irrecoverable receivables, supported by evident characteristics, of a debtor who was unable to comply with the repayment obligation after the debt fell due.

(2) The Group adopted the provision method to account for bad debt losses, whereby specific and general provisions were made to account for possible bad debt losses expected to be incurred. A specific provision refers to a bad debt provision based on management's assessment of the recoverability of individual receivables such as debtor's financial position, cashflow status etc. Specific bad debt provision shall be separately made in respect of trade receivables for which there is direct evidence that impairment has occurred. Separate impairment tests shall be conducted in respect of individual trade receivables with a significant amount or prolonged overdue period, and specific bad debt shall be made if there is objective evidence that impairment has occurred. For trade receivables in respect of which no separate test has been carried out or no impairment has been recorded in separate test shall be consolidated into an asset portfolio that shows similar credit risk features for impairment tests and a specific bad debt provision will be made. The grading of credit risk and its corresponding empirical impairment ratios are differentiated and determined on the basis of with the current financial conditions of customers, historical trading records and overdue periods of trade receivables.

(3) A general provision refers to a bad debt provision made by the management, other than the specific provision, on the year-end balances of other receivables and prepayments based on the ageing analysis.

Provision for expenses on other receivables is made as follows:

Ageing	Percentage of provision	Remark
1-2 months	—	Applicable to other receivables arising from domestic operations
Over 2 months	100%	Applicable to other receivables arising from domestic operations
1-3 months	—	Applicable to other receivables arising from overseas operations
3-4 months	58%	Applicable to other receivables arising from overseas operations
4-5 months	75%	Applicable to other receivables arising from overseas operations
5-6 months	92%	Applicable to other receivables arising from overseas operations
Over 6 months	100%	Applicable to other receivables arising from overseas operations

Provision for bad debts on other prepayments is made as follows:

Ageing	Percentage of provision	Remark
1-6 months	—	Applicable to all prepayments
6-12 months	—	Applicable to prepayments arising from the purchase of fixed assets
6-12 months	50%	Applicable to prepayments arising from the purchase of raw materials
12-24 months	75%	Applicable to prepayments arising from the purchase of raw materials
12-24 months	50%	Applicable to prepayments arising from the purchase of fixed assets
Over 24 months	100%	Applicable to all prepayments

## NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

(All amounts in RMB'000 unless otherwise stated)

### II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

#### 10. Inventories

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

Inventories are recorded at actual costs and recognised using the weighted moving average method when dispatched.

Cost of finished products and work in progress comprise direct materials, direct labour and an appropriate proportion of manufacturing overheads.

Inventories are valued using the perpetual inventories system.

Inventories at the end of the period are stated at the lower of cost and net realisable value. When the provision for impairment of inventories is calculated, inventories are further classified into categories of system products and categories of terminal products (including raw materials, work-in-progress, and finished goods). The provision for impairment of inventories is made on the basis of individual categories in respect of any shortfall where the net realisable value is lower than cost. Net realisable values represent estimated selling prices less any estimated costs to be incurred to completion, estimated selling expenses and relevant tax amounts in the normal course of production.

#### 11. Construction contract works

The amount of construction contract works represents costs incurred to date and recognised gross profit (loss) less progress billings. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labor, construction machinery costs, other direct costs and an appropriate proportion of construction overheads. The amount of contract costs incurred to date plus recognised gross profit (loss) in excess of progress billings is recognised as an asset; whereas, the amount of progress billings in excess of contract costs incurred to date plus recognised gross profit (loss) is recognised as liabilities.

The proportion of construction contract work completion is principally represented by the contract costs incurred to date as a proportion of estimated total contract costs. Revenue from construction contracts is recognised using the percentage of completion method when the contract activities have progressed to a stage where economic benefit can be reasonably foreseen.

Provision for anticipated contract losses is made 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 realization of anticipated contract losses in 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.

#### 12. Long-term investments

Long-term equity investments are recorded at initial investment cost on acquisition.

The cost method is used in accounting for long-term equity investments where the Company has no control or jointly-control or significant influence over the investee company or where the fair value of the investment could not be reliably measured; the equity method is used in accounting for long-term equity investments where the Company has control or jointly-control or significant influence over the investee company.

## NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

(All amounts in RMB'000 unless otherwise stated)

### II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

#### 12. Long-term investments (continued)

When the equity method is adopted, the amount of initial cost of the investment of a long-term equity investment is not adjusted if the initial investment costs do not exceed the investor's share of fair value of the identifiable net asset value of the investee company. If the the amount of initial cost of the investment is less that the investor's share of fair value of the identifiable net asset value of the investee company, the difference will be dealt with in the current profit and loss.

When the equity method is adopted, the Group should, after the acquisition of the equity investment, adjust the book value of the long-term equity investment according to its attributable share of the investee enterprise's net profit or loss and recognise it accordingly, either as an investment income or a loss in the current period.

When the cost method is adopted, profit or cash dividends declared to be distributed by the investee enterprise should be recognised as an investment income in the current period after the investment was acquired by the Group. The excess should be treated as a recovery of investment cost.

At the end of the period, long-term investments were measured at the lower of the book value and the recoverable amount. Provision for impairment of long-term investments is made on the basis of individual categories in respect of any shortfall where the recoverable amount is lower than cost and dealt with in the current profit and loss.

#### 13. Fixed assets

Fixed assets represent tangible assets held for the purposes of production of products, provision of services, leasing or operational use. They are of relatively high value and have useful lives exceeding 1 year.

Fixed assets are recognised at cost. The cost of purchasing fixed assets comprise the purchase price, tax payments (such as value-added tax and import tariffs) and other expenses incurred in bringing fixed assets to the expected state for use that are directly attributable to the asset, such as transportation and installation fees. Subsequent expenses relating to fixed assets are charged to fixed assets to the extent of the excess of possible inflow of economic benefits into the enterprise resulting from such expenses over original estimates.

Depreciation is provided on fixed assets using the straight-line method, the estimated useful lives, estimated residual value and annual depreciation rate of each category of fixed assets are as follows:

	Estimated useful life	Estimated residual value	Annual depreciation rate
Leasehold improvement	5 years	0%	20%
Buildings (excluding temporary plants)	30 years	5%	3.17%
Buildings — temporary plants	3 years	5%	31.67%
Machinery equipment	5–10 years	5%	9.5%–19%
Electronic equipment	5 years	5%	19%
Motor vehicles	10 years	5%	9.5%
Other equipment	5 years	5%	19%

At the end of the period, fixed assets are measured at the lower of the book value and the recoverable amount. The difference by which the recoverable amount is less than the book value of the fixed asset is recognised as an impairment provision and charged to the current period's profit and loss. Recoverable amount refers to the higher of the net fair value after disposal costs and the present value of estimated future cash flow generated by the assets. Impairment provisions for fixed assets were made on an individual basis.

The Group adjusted the useful life, estimated residual value and depreciation method of fixed assets at least at each balance sheet date.

## NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)  
(All amounts in RMB'000 unless otherwise stated)

### II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

#### 14. Construction in progress

Construction in progress represents the necessary costs incurred in the purchase and construction of fixed assets in bringing construction from its preparation stage to its working condition. Costs comprise direct materials, direct labor, equipment cost, installation and management fee, net profit or loss from trial run and borrowing costs for capitalization.

Until such time as the assets are completed and put into operational use, construction-in-progress is recognized as a fixed asset.

Provision for construction-in-progress impairment should be made and be recognised in the income statement in the event that construction has stopped already for a long time and is estimated not to be restarted in the next 3 years or; economic return on the construction was ultimately uncertain with inferior construction quality and backward technology.

#### 15. Intangible assets

Intangible assets are recorded at the actual cost on acquisition.

Intangible assets are amortised by equal installments over its estimated useful lives, the beneficial period stipulated by the related contract or the effective period stipulated by applicable laws (whichever the shorter). The amortization periods of intangible assets are as follows:

Category	Amortization period
Patent technology	10 years
Operating concession	20 years
Land use rights	50 years
Software	5 years

Intangible assets of which useful life is uncertain are not amortised.

Development costs that meet certain specific conditions are being capitalised. The corresponding portion of capitalisation is systematically amortised and charged to cost of sales of products from the month in which sales of the product concerned commence.

At the end of the period, intangible assets are measured at the lower of the book value and the recoverable amount. Any excess of the book value of the asset over the expected recoverable amount is recognised as an impairment provision and is charged to the income statement in the current year.

#### 16. Recognition of revenue

##### *Telecommunications systems contracts*

Operating income from telecommunications systems contracts is recognised by reference to the estimated completion of the construction contract (please refer to Note II.11 for details) where the total revenue and total costs could be measured reliably and where transaction-related amounts are allowed to pass into the Group, and costs would be accounted for accordingly.

##### *Sales of goods*

Revenue from sales of goods is recognised when the significant risks in connection with the ownership of the product and the payment has been transferred to the buyer, and the Group no longer has custody and control over the product provided that the economic benefits flow to the Group and relevant revenue and costs could be reliably measured.

## NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

(All amounts in RMB'000 unless otherwise stated)

### II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

#### 16. Recognition of revenue (continued)

##### *Supply of labor service*

The revenue from labor service is recognised when the supply of labor service has been completed within one accounting year since its commencement; if the commencement and completion of supply of labor service did not take place in the same accounting year, when transaction result of the supply of labor service could be measured reliably, related revenue from labor service is recognised according to the percentage of completion on the balance sheet date, otherwise revenue is recognised only to the extent of cost incurred that are expected to be recoverable.

##### *Sales contracts involving multiple deliverables*

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

#### 17. Provision

The Group recognise 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 that could be reliably measured and would probably result in an outflow of economic resources.

#### 18. Income tax

The Group adopts the tax-effect accounting method in respect of enterprise income taxes. Where there is a difference between the carrying amount of assets and liabilities and their tax bases, deferred income tax assets or deferred income tax liabilities are recognised.

#### 19. Subsidy income

The Group's subsidy income was mainly derived from refundable VAT and government subsidies such as contributions to development funds and financial subsidies for new products. Where the conditions of government subsidies are met and the subsidies are receivable, the portion applied to make up expenses and losses in previous periods or the current period are directly charged to current profit and loss based on the amount received or receivable. Government grants applied to make up subsequent or asset-related expenses are recognised as deferred income based on the amount received or receivable and are subsequently recognised in the relevant periods on an average basis.

#### 20. Related parties

A party is deemed to be a related party of the Group if it directly or indirectly controls or is controlled by, is in common control of or under common control with, or if it exercises significant influence on or under the significant influence of the Group in financial and operational decisions. A party is also deemed to be a related party of the Group if they are subject to the control of the same party together with the other party or parties.

#### 21. Share incentive scheme

In accordance with the first phase of the share incentive scheme, the Company has granted to its directors, management and key employees 47,980,000 ordinary shares, among which 4,798,000 shares has been reserved for both the personnel who have made significant contributions and the talents the Company need to employ. The staff service cost of the share incentive scheme expense is measured by reference to the fair value of the stock on the granting day determined by Towers Perrin Shenzhen Branch, an external valuer. The staff service acquired during the period is charged to relevant costs or expenses at the fair value of the stock on the granting day and the capital reserve is credited accordingly.

## NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)  
(All amounts in RMB'000 unless otherwise stated)

### II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

#### 22. Preparation of consolidated financial statements

Consolidated financial statements are prepared in accordance with the Enterprise Accounting Standards No. 33 — Consolidation of financial statements.

Consolidated statements comprise the financial statements of a listed company with limited liability together with its subsidiaries. A subsidiary is a company in which the Company owns 50% or above of the voting capital or exercises effective control even if it does not own 50% or above of the voting capital.

Results of subsidiaries were included in the consolidated statements upon the acquisition of effective control by the Company up to the date on which such control was transferred out of the Group.

On combination, reporting years and accounting policies consistent with those adopted by the parent would be adopted in respect of the financial statements of subsidiaries. All intra-group transactions and balances (including any unrealised profit) are eliminated in full on combination.

Business combination which is not under common control is accounted for using the acquisition method. The combination costs represent the fair value of the assets, liabilities incurred or assumed and equity securities issued by the Group on the acquisition date for the purpose of acquiring control of the acquiree. On the acquisition date, assets, liabilities and contingent liabilities of the acquiree obtained by the Group are being recognised at fair value.

Business combination under common control is accounted for using the equity combination method. Assets and liabilities of the absorbed party acquired by the surviving party are measured at the original carrying value of the absorbed party on the consolidation date, subject to adjustments relating to differences in accounting policies. The difference between the carrying value of the consideration for consolidation (or the total nominal value of issued shares) and the attributable carrying value of net assets acquired in the consolidation shall be dealt with by adjusting the capital reserve. Where the capital reserve is insufficient for the write-down, adjustments should be made to retained earnings.

Please refer to Note IV to these financial statements for details of subsidiaries consolidated on 30 June 2007.



## NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

(All amounts in RMB'000 unless otherwise stated)

### III. TAXATION

The principal tax items and tax rates applicable to the Group are 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 is payable by the Group at tax rates of 3% and 5%, respectively, on its sales income and service income which are subject to business tax.
City maintenance and construction tax	—	In accordance with relevant PRC tax regulations and local regulations, city maintenance and construction tax is 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 is 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 withhold income tax from its salary payments to employees based on progressive tax rates
Enterprise income tax	—	In accordance with the PRC Provisional Regulations on Enterprise Income Tax, enterprise income tax is payable by the Group on its taxable income.
Overseas tax	—	Overseas taxes are payable in accordance with tax laws of various countries and regions.

The Company was registered in Shenzhen Special Economic Zone (SEZ), hence its enterprise income tax rate is 15%. Taxation policy of some of the Company's subsidiaries was as follows:

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Yan Jian Mian (2005) No. 004) issued by the Shenzhen State Tax Bureau, it was agreed that ZTE Microelectronics Technology Co. Ltd., as an enterprise, was 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. The current year was its fourth profitable year and the company was subject to a reduced enterprise income tax of 7.5%.

Wuxi Zhongxing Optoelectronics Technologies Company, Limited was registered at Wuxi State's High-tech Industrial Development Zone and was subject to an enterprise income tax rate of 15%.

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Nan Jian Mian (2005) No. 0098) issued by the Nanshan State Tax Bureau in Shenzhen, Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited, as a SEZ enterprise engaged in the servicing industry, was entitled to enterprise income tax exemption in the first profitable year and a 50% reduction of enterprise income tax in the second and third years. As the company had yet to record a profitable year, it was exempted from enterprise income tax.

Pursuant to the Document Shen Di Shui San Han (2003) No. 199 issued by the Local Tax Bureau of Shenzhen, ZTE Mobile Tech Co., Ltd., as a manufacturing enterprise, was 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 the current year was the fifth profitable year for the company, it was subject to a reduced enterprise income tax rate of 7.5%.

## NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)  
(All amounts in RMB'000 unless otherwise stated)

### III. TAXATION (continued)

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Nan Jian Mian (2004) No. 0372) issued by the Nanshan State Tax Bureau in Shenzhen, ZTE Integration Telecom Ltd, as a manufacturing enterprise, was 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 it was the third profitable year for the company, it was exempted from enterprise income tax.

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Nan Zi (2004) No. 0034) issued by the Nanshan State Tax Bureau in Shenzhen, it was agreed that Shenzhen Zhongxing Software Company, Limited, as a software enterprise, was 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. The current year was the fifth profitable year and hence, the company was subject to a reduced enterprise income tax rate of 7.5%.

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Nan Zi (2004) No. 0002) issued by the Nanshan State Tax Bureau in Shenzhen, it was agreed that Shenzhen Lead Communication Equipment Company, Limited, as a manufacturing enterprise, was 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. The current year was the fifth profitable year. Hence, the company was subject to a reduced enterprise income tax rate of 7.5%.

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Nan Zi (2004) No. 0381) issued by the Nanshan State Tax Bureau in Shenzhen, it was agreed that Shenzhen Ruide Electronic Industrial Company, Limited, as a manufacturing enterprise, was 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. The current year was the fourth profitable year and the company was subject to a reduced enterprise income tax rate of 7.5%.

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Nan Zi (2004) No. 0036) issued by the Nanshan State Tax Bureau in Shenzhen, it was agreed that Shenzhen Kangquan Electromechanical Company, Limited, as a manufacturing enterprise, was 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. The current year was the fourth profitable year and the company was subject to a reduced enterprise income tax rate of 7.5%.

Pursuant to the Document Shen Guo Shui Nan Jian Mian (2005) No. 0217 issued by the Nanshan State Tax Bureau in Shenzhen, Shenzhen Zhongxing Liwei Technology Company, Limited was 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 the current year was the third profitable year and the company was subject to a reduced enterprise income tax rate of 7.5%.

Pursuant to the Document Shen Guo Shui Nan Jian Mian (2006) No. 0002 issued by the Nanshan State Tax Bureau in Shenzhen, Shenzhen Zhongxing Special Equipment Company, Limited was 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 the current year was the third profitable year and the company was subject to a reduced enterprise income tax rate of 7.5%.

Yangzhou Zhongxing Mobile Telecom Equipment Co., Limited, Anhui Wantong Post and Telecommunications Company, Limited., Guangdong New Pivot Technology & Service Company, Limited were subject to an enterprise income tax rate of 33%.

Shenzhen Guoxin Electronics Development Company Limited, Shenzhen Changfei Investment Company, Limited and Shenzhen Xingfei Technology Co., Ltd. were subject to an enterprise income tax rate of 15%.

## NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

(All amounts in RMB'000 unless otherwise stated)

### IV. CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (IN RMB UNLESS OTHERWISE STATED)

Except for the note (1) below, the scope of consolidated financial statements was the same as the previous year.

#### (1) Subsidiaries added during the year

Name of investee company	Registered Capital	Scope of business	Investment by the Group	Percentage of equity interests
ZTE HELLAS TELECOMMUNICATIONS S.A.	EUR300,000	Sales of telecommunication products, provision of after-sales services and technical support	EUR98,543.07	100%
ZTE Philippines Inc.	PHP10,000,000	Sales of telecommunication products, provision of after-sales services and technical support	USD200,000	100%
ZTE ITALY S.R.L.	EUR10,000	Sales of telecommunication products, provision of after-sales services and technical support	EUR10,000	100%
ZTE FRANCE SASU	EUR150,000	Sales of telecommunication products, provision of after-sales services and technical support	EUR150,000	100%
ZTE Afghanistan Ltd. Co.	USD100,000	Sales of telecommunication products, provision of after-sales services and technical support	USD100,000	100%

## NOTES TO FINANCIAL STATEMENTS

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(All amounts in RMB'000 unless otherwise stated)

## IV. CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

## (1) Subsidiaries added during the year (continued)

Name of investee company	Registered Capital	Scope of business	Investment by the Group	Percentage of equity interests
ZTE Telecom South Africa	USD250,000	Sales of telecommunication products, provision of after-sales services and technical support	USD187,250	74.9%
ZTE PARSIAN	USD500,000	Sales of telecommunication products, provision of after-sales services and technical support	EUR377,500	100%
ZTE (H.K.) LIMITED ETHIOPIA BRANCH	ETB900,000	Sales of telecommunication products, provision of after-sales services and technical support	USD100,000	100%
ZTE DE VENEZUELA C.A.	VEB1,400,000,000	Sales of telecommunication products, provision of after-sales services and technical support	USD651,162.79	100%
南京中興軟創軟件 技術有限公司	RMB10,000,000	Development and sales of software products and provision of related technical services	RMB10,000,000	100%

## (2) Subsidiaries included in the scope of consolidation

Full name of subsidiary	Place of registration	Registered capital	Percentage of equity interests held by the Company			Investment by the Group	Principal operations
			Direct	Indirect	Effective		
ZTE Kangxun Telecom Co., Ltd.	Shenzhen	RMB50,000,000	90%	—	90%	RMB45,000,000	Manufacture of electronics products and related parts (excluding restricted items)
ZTE Microelectronics Technology Co. Ltd.	Shenzhen	RMB15,000,000	—	90%	90%	RMB13,500,000	Design, manufacture and sales of integrated circuit products
Zhongxing Telecom Pakistan (Private) Ltd.	Islamabad, Pakistan	PKR37,919,000	93%	—	93%	USD654,700	Assembling and manufacture of digital remote control switch
Yangzhou Zhongxing Mobile Telecom Co., Limited	Yangzhou	RMB6,000,000	65%	—	65%	RMB3,900,000	R&D, manufacture and sales of electronics, computer and communications products

## NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

(All amounts in RMB'000 unless otherwise stated)

### IV. CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

#### (2) Subsidiaries included in the scope of consolidation (continued)

Full name of subsidiary	Place of registration	Registered capital	Percentage of equity interests held by the Company			Investment by the Group	Principal operations
			Direct	Indirect	Effective		
Shenzhen Zhongxing Mobile Technology Co., Ltd.	Shenzhen	RMB33,333,000	95%	—	95%	RMB31,666,000	Development and sales of telecommunications products; manufacture of handset batteries, chargers and ear phones
Congo-Chine Telecom S.A.R.L	The Democratic Republic of Congo	USD17,450,000	51%	—	51%	USD8,900,000	Construction of telephone network in Congo, provision of telecom services and manufacture of communications equipment
Congo-Chine Telecom International Network (CCTNET)	The Democratic Republic of Congo	USD100,000	—	100%	100%	USD100,000	Manufacture of data and telecommunication products and provision of telecom services
南京中興軟創科技有限責任公司	Nanjing	USD7,231,000	76%	—	76%	RMB45,040,000	Development, manufacture and sales of software products, telecommunication equipment and provision of related services
Guangzhou Nanfang Telecommunications System Software Co. Ltd.	Guangzhou	RMB12,430,000	—	84%	84%	RMB11,500,000	Development, manufacture and sales of software products, telecommunication equipment and provision of related services

## NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

(All amounts in RMB'000 unless otherwise stated)

## IV. CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

## (2) Subsidiaries included in the scope of consolidation (continued)

Full name of subsidiary	Place of registration	Registered capital	Percentage of equity interests held by the Company			Investment by the Group	Principal operations
			Direct	Indirect	Effective		
Shenzhen Zhongxing Software Company Limited	Shenzhen	RMB50,000,000	73%	25%	98%	RMB49,000,000	Development, manufacture and sales of all kinds of communications equipment system drivers, software for the service sector, and provision of technical consultation
Shenzhen Guoxin Electronics Development Company, Limited	Shenzhen	RMB13,000,000	90%	10%	100%	RMB33,000,000	Purchase and sales of electronics components; domestic business, supply and sale of materials; promotion of a variety of industries
Wuxi Zhongxing Optoelectronics Technologies Company, Limited	Wuxi	RMB10,000,000	65%	—	65%	RMB6,500,000	Development of optoelectronics technologies and manufacture and sales of related products and provision of technical services
Shenzhen Force Science and Technology Company, Limited	Shenzhen	RMB3,000,000	—	80%	80%	RMB2,400,000	Development of optoelectronics technologies and manufacture and sales of related products and provision of technical services
Anhui Wantong Posts and Telecommunications Company, Limited	Hefei	RMB22,214,400	51%	—	51%	RMB11,329,300	Manufacture of communications wireline equipment and accessories, PDF and switch equipment, manufacture and installation of towers, and design and installation of communications projects

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(All amounts in RMB'000 unless otherwise stated)

### IV. CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

#### (2) Subsidiaries included in the scope of consolidation (continued)

Full name of subsidiary	Place of registration	Registered capital	Percentage of equity interests held by the Company			Investment by the Group	Principal operations
			Direct	Indirect	Effective		
Anhui Wantong Information System Integration Company, Limited	Hefei	RMB3,000,000	—	95%	95%	RMB2,850,000	Design and installation of telecom projects
Anhui Wantong Tower Integration Company, Limited	Hefei	RMB2,000,000	—	90%	90%	RMB1,800,000	Installation of towers
Anhui Yalong communications Technology Company, Ltd.	Hefei	RMB6,000,000	—	90%	90%	RMB5,400,000	Manufacturing, installation, maintenance of telecommunication equipment and design and construction and telecommunication projects
ZTE (H.K.) Limited	Hong Kong	HKD50,000,000	100%	—	100%	HKD50,000,000	Procurement and sales of communications products and provision of technical services
ZTE Portugal — Projectos de Telecomunicacoes, Unipessoal, Lda	Portugal	EUR50,000	—	100%	100%	EUR50,000	Sales of communications products and provision of after-sale services
ZTE (USA) Inc.	Edison, U.S.	USD20,000	100%	—	100%	USD650,000	Sales of communications products
Shenzhen Zhongxing Special Equipment Company, Limited	Shenzhen	RMB10,000,000	54%	—	54%	RMB540,000	Technical development, services, consultation and purchase and sales of communications products
Telrise (Cayman) Telecom Limited	Cayman Islands	USD50,000	52.85%	47.15%	100%	USD4,350,000	R&D of softswitch technologies
Telrise INC.	Cayman Islands	USD1,609,000	—	100%	100%	USD1,609,000	R&D of softswitch technologies
Telrise Nanjing Telecom Limited	Nanjing	USD100,000	—	100%	100%	USD100,000	R&D of softswitch technologies

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## IV. CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

## (2) Subsidiaries included in the scope of consolidation (continued)

Full name of subsidiary	Place of registration	Registered capital	Percentage of equity interests held by the Company			Investment by the Group	Principal operations
			Direct	Indirect	Effective		
ZTE (UK) Ltd.	London, U.K.	GBP604,000	100%	—	100%	USD572,490	Sales of telecommunication products, provision of after-sales services and technical support
ZTE Do Brasil LTDA	Brazil	USD200,000	100%	—	100%	USD900,000	Sales of telecommunication products, provision of after-sales services and technical support
ZTE Holdings (Thailand) Co., Ltd.	Thailand	THB100,000	49%	—	49%	THB49,000	Investment holding
ZTE (Thailand) Co., Ltd.	Thailand	THB50,000,000	49%	51%	100%	THB20,000,000	Sales of telecommunication products, provision of after-sales services and technical support
ZTE Corporation Mexico S. DE R.L DE C.V.	Mexico	USD5,000	100%	—	100%	USD28,115	Sales of telecommunication products, provision of after-sales services and technical support
ZTE Integration Telecom Ltd	Shenzhen	RMB55,000,000	75%	5%	80%	RMB44,000,000	Research and manufacture, production and sales of digital integrated system products and provision of related consultation services
ZTEIT USA Inc.	U.S.	USD950,000	—	100%	100%	USD475,000	Design and development of all kinds of communications products
ZTE-Communication Technologies, Ltd.	Russia	USD760,000	100%	—	100%	USD760,000	Sales of telecommunication products, provision of after-sales services and technical support



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### IV. CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

#### (2) Subsidiaries included in the scope of consolidation (continued)

Full name of subsidiary	Place of registration	Registered capital	Percentage of equity interests held by the Company			Investment by the Group	Principal operations
			Direct	Indirect	Effective		
ZTE Wistron Telecom AB	Sweden	SEK1,000,000	100%	—	100%	USD3,137,400	Operation of telecommunications related businesses as R&D base and technical support platform of the sector
Shenzhen Changfei Investment Company, Limited	Shenzhen	RMB30,000,000	51%	—	51%	RMB15,300,000	Investment and promotion of industries, and sales of electronics and communications parts and components
Shenzhen Lead Communications Company, Limited	Shenzhen	RMB10,000,000	—	62.5%	62.5%	RMB6,250,000	Sales of electronics products, communications products, apparatus and instruments and related accessories
Shenzhen Ruide Electronic Industrial Company Limited	Shenzhen	RMB8,700,000	—	57.47%	57.47%	RMB5,500,000	Manufacture and sales of handset accessories; sales of electronics products; operation of I/E businesses
Shenzhen Kangquan Electromechanical	Shenzhen	RMB16,000,000	—	57.5%	57.5%	RMB9,200,000	Manufacture and sales of handset case and accessories; purchase and sales of electronics products; self operation of I/E businesses
深圳市興飛科技有限公司	Shenzhen	RMB5,000,000	—	80%	80%	RMB4,000,000	Four technical services of electronic products, manufacturing, sales and after-sales services of electronic products and corporate management consultancy

## NOTES TO FINANCIAL STATEMENTS

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## IV. CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

## (2) Subsidiaries included in the scope of consolidation (continued)

Full name of subsidiary	Place of registration	Registered capital	Percentage of equity interests held by the Company			Investment by the Group	Principal operations
			Direct	Indirect	Effective		
Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited	Shenzhen	RMB50,000,000	90%	10%	100%	RMB50,000,000	Technical development of computer networks, software, electronics equipment and communications products; domestic supply and sales of materials and resources; information consultancy
Shanghai Zhongxing Telecom Equipment Technology & Service Company, Limited	Shanghai	RMB10,000,000	51%	—	51%	RMB5,100,000	R&D of communications technologies, design, research, development, manufacture and sales of software and hardware for communications products and provision of related technical services
Guangdong New Pivot Technology & Service Company Limited	Guangzhou	RMB5,000,000	90%	—	90%	RMB4,500,000	Development, design and integration of computer software, hardware and data equipment; sales and technical assignment of related products and provision of related services
Closed Joint Stock Company TK Mobile	Tadzhikistan	USD4,000,000	51%	—	51%	RMB16,870,800	Manufacture of CDMA800 mobile voice and related value-added services, maintenance of CDMA telecom networks and provision of consultation services

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(Prepared under PRC GAAP)

(All amounts in RMB'000 unless otherwise stated)

### IV. CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

#### (2) Subsidiaries included in the scope of consolidation (continued)

Full name of subsidiary	Place of registration	Registered capital	Percentage of equity interests held by the Company			Investment by the Group	Principal operations
			Direct	Indirect	Effective		
ZTE Telecom India Private Ltd.	India	USD22,200	99.99%	0.01%	100%	RMB1,654,000	Assembling and integration of telecom systems equipment and terminal equipment in India; investment in and establishment of local manufacturing joint-venture
ZTE Romania S.R.L.	Romania	USD100,000	100%	—	100%	RMB827,000	Sales and marketing of the Company's products in Romania and provision of corresponding engineering, after-sale services, technical support, consultation and trainings
ZTE (Malaysia) Corporation Sdn. Bhd.	Malaysia	USD60,000	100%	—	100%	RMB496,200	Sales and marketing of the Company's products in Malaysia and provision of corresponding engineering, after-sale services, technical support, consultation and trainings
ZiMax (Cayman) Holding Ltd.	Cayman Islands	USD5,500,000	100%	—	100%	RMB45,485,000	R&D investment in all kinds of communications products
Shenzhen Hongde Battery Company, Limited	Shenzhen	RMB15,000,000	—	83%	83%	RMB12,500,000	Manufacture and sales of batteries, sale of battery raw materials and electronics products (excluding franchised, state-controlled and monopolized merchandises and restricted items); operate import and export businesses

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## IV. CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

## (2) Subsidiaries included in the scope of consolidation (continued)

Full name of subsidiary	Place of registration	Registered capital	Percentage of equity interests held by the Company			Investment by the Group	Principal operations
			Direct	Indirect	Effective		
ZTE (Saudi Arabia) Ltd.	Saudi Arabia	USD534,760	—	100%	100%	USD534,760	Sales of telecommunication products, provision of after-sales services and technical support
ZTE NIGERIA INVESTMENT LTD.	Nigeria	USD39,000	—	100%	100%	USD540,000	Import and export of raw materials, manufacture, testing, sales, installation, development, user training and after-sale services of telecommunications products
ZTE Sweden AB	Sweden	USD360,000	—	100%	100%	USD360,000	Sales of telecommunication products, provision of after-sales services and technical support
PT. ZTE Indonesia	Indonesia	USD200,000	99.5%	0.5%	100%	USD200,000	Sales of telecommunication products, provision of after-sales services and technical support
ZTE Istanbul Trading Ltd. Co.	Turkey	USD50,000	—	100%	100%	USD49,500	Sales of telecommunication products, provision of after-sales services and technical support
ZTE Hrvatska D.O.O.	Croatia	EUR3,000	—	100%	100%	EUR3,000	Sales of telecommunication products, provision of after-sales services and technical support
ZTE Corporation Bulgaria Ltd.	Bulgaria	USD3,500	—	100%	100%	USD3,500	Sales of telecommunication products, provision of after-sales services and technical support

## NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

(All amounts in RMB'000 unless otherwise stated)

### IV. CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

#### (2) Subsidiaries included in the scope of consolidation (continued)

Full name of subsidiary	Place of registration	Registered capital	Percentage of equity interests held by the Company			Investment by the Group	Principal operations
			Direct	Indirect	Effective		
ZTE Deutschland GmbH	Germany	EUR150,000	—	100%	100%	EUR150,000	Sales of telecommunication products, provision of after-sales services and technical support
ZTE POLAND Sp.zo.o.	Poland	USD50,000	—	100%	100%	USD50,000	Sales of telecommunication products, provision of after-sales services and technical support
深圳中興力維技術有限公司	Shenzhen	RMB20,000,000	30%	50%	80%	RMB16,000,000	Design and development of operating environment and status monitoring and management systems for network base station and electronic equipment and electronic system equipment, sales of proprietary products and provision of technical services
西安中興精誠通訊有限公司	Xi'an	RMB15,000,000	70%	—	70%	RMB11,390,000	Installation, testing and technical services; development and sales of computer application software and systems integration, technical protection works and the development, production and sales of security products
ZiMax Technologies, Inc.	U.S.	USD20,000,000	—	100%	100%	USD5,379,700	R&D of wireless communication technology
Newinfo Holdings Limited	Hong Kong	USD50,000	—	100%	100%	USD4,299	Acquisition, shareholding and investment of telecom carriers

## NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)  
(All amounts in RMB'000 unless otherwise stated)

## IV. CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

## (2) Subsidiaries included in the scope of consolidation (continued)

Full name of subsidiary	Place of registration	Registered capital	Percentage of equity interests held by the Company			Investment by the Group	Principal operations
			Direct	Indirect	Effective		
ZTE Canada Inc.	Canada	USD200,000	—	100%	100%	USD38,000	Sales of telecommunication products, provision of after-sales services and technical support
ZTE Netherlands B.V.	Holland	EUR90,000	—	100%	100%	EUR18,000	Sales of telecommunication products, provision of after-sales services and technical support
ZTE GHANA LIMITED	Ghana	USD300,000	—	100%	100%	USD300,000	Sales of telecommunication products, provision of after-sales services and technical support
ZTE (Australia) Pty Ltd.	Australia	USD200,000	—	100%	100%	USD200,000	Sales of telecommunication products, provision of after-sales services and technical support
深圳中興無線通信有限公司	Shenzhen	USD5,000,000	—	100%	100%	USD750,000	Development, production and sales of GSM and PHS telecommunication equipment
南京中興軟創軟件有限公司	Nanjing	RMB5,000,000	—	100%	100%	RMB5,000,000	Development, manufacture, assembly and sales of telecom equipment, software products and digital equipment and provision of related services
ZHONGXING CORPORATION S.A. DE C.V.	Salvador	USD11,428.57	—	100%	100%	USD11,428.57	Sales of telecommunication products, provision of after-sales services and technical support
ZTE Energy (Cayman) Co., Limited	Cayman Islands	USD10,000,000	—	100%	100%	USD4,450,000	R&D, manufacture, sales and investment in resource area

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(Prepared under PRC GAAP)

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### IV. CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

#### (2) Subsidiaries included in the scope of consolidation (continued)

Full name of subsidiary	Place of registration	Registered capital	Percentage of equity interests held by the Company			Investment by the Group	Principal operations
			Direct	Indirect	Effective		
ZTE INVESTMENT Limited Liabilities Company	Uzbekistan	USD335,000	—	51%	51%	USD100,000	Manufacture and sales of mobile phone products and data system, etc.
ZTE Norway AS	Norway	NOK100,000	—	100%	100%	NOK100,000	Sales of telecommunication products, provision of after-sales services and technical support
ZTE Mauritius LTD.	Mauritius	USD10,000	—	100%	100%	USD10,000	Sales of telecommunication products, provision of after-sales services and technical support
中興能源技術(武漢)有限公司	Wuhan	HKD14,700,000	—	100%	100%	HKD5,000,000	R&D and promotion of the technology and products of renewable resources and the provision of related services
深圳市中興力維軟件有限公司	Shenzhen	RMB1,000,000	—	90%	90%	RMB900,000	R&D, manufacture and sales of the software products and provision of services
中興能源(湖北)有限公司	Jingzhou	USD5,000,000	—	70%	70%	USD3,500,000	R&D and promotion of the technology and products of renewable resources and the provision of related services
ZTE SINGAPORE PTE.LTD.	Singapore	SGD50,000	—	100%	100%	USD32,500	Sales of telecommunication products, provision of after-sales services and technical support
ZTE Korea Limited	Korea	KRW50,000,000	—	100%	100%	USD53,500	Sales of telecommunication products, provision of after-sales services and technical support

## NOTES TO FINANCIAL STATEMENTS

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## IV. CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

## (2) Subsidiaries included in the scope of consolidation (continued)

Full name of subsidiary	Place of registration	Registered capital	Percentage of equity interests held by the Company			Investment by the Group	Principal operations
			Direct	Indirect	Effective		
ZTE CZECH, s.r.o.	Czech	CZK200,000	—	100%	100%	USD10,000	Sales of telecommunication products, provision of after-sales services and technical support
ZTE India R&D Center Private Limited	India	INR100,000	—	100%	100%	INR100,000	Sales of telecommunication products, provision of after-sales services and technical support
西安中興軟件有限責任公司	Xi'an	RMB30,000,000	—	100%	100%	RMB30,000,000	Development, manufacture and sales of all kinds of communications equipment system drivers, software for the service sector, and provision of technical consultation
南京中興軟件有限責任公司	Nanjing	RMB50,000,000	—	100%	100%	RMB50,000,000	Development, manufacture and sales of all kinds of communications equipment system drivers, software for the service sector, and provision of technical consultation
上海中興軟件有限責任公司	Shanghai	RMB50,000,000	—	100%	100%	RMB50,000,000	Development, manufacture and sales of all kinds of communications equipment system drivers, software for the service sector, and provision of technical consultation



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### IV. CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

#### (2) Subsidiaries included in the scope of consolidation (continued)

Full name of subsidiary	Place of registration	Registered capital	Percentage of equity interests held by the Company			Investment by the Group	Principal operations
			Direct	Indirect	Effective		
成都中興軟件有限責任公司	Chengdu	RMB50,000,000	—	100%	100%	RMB50,000,000	Development, manufacture and sales of all kinds of communications equipment system drivers, software for the service sector, and provision of technical consultation
深圳市中軟海納技術有限公司	Shenzhen	RMB8,000,000	—	100%	100%	RMB8,000,000	Development, manufacture and sales of all kinds of communications equipment system drivers, software for the service sector, and provision of technical consultation
ZTE HELLAS TELECOMMUNICATIONS S.A.	Greece	EUR300,000	—	100%	100%	EUR98,543.07	Sales of telecommunication products, provision of after-sales services and technical support
ZTE Philippines Inc.	Philippine	PHP10,000,000	—	100%	100%	USD200,000	Sales of telecommunication products, provision of after-sales services and technical support

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## IV. CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

## (2) Subsidiaries included in the scope of consolidation (continued)

Full name of subsidiary	Place of registration	Registered capital	Percentage of equity interests held by the Company			Investment by the Group	Principal operations
			Direct	Indirect	Effective		
ZTE ITALY S.R.L.	Italy	EUR10,000	—	100%	100%	EUR10,000	Sales of telecommunication products, provision of after-sales services and technical support
ZTE FRANCE SASU	France	EUR150,000	—	100%	100%	EUR150,000	Sales of telecommunication products, provision of after-sales services and technical support
ZTE Afghanistan Ltd. Co.	Afghanistan	USD100,000	—	100%	100%	USD100,000	Sales of telecommunication products, provision of after-sales services and technical support
ZTE Telecom South Africa	South Africa	USD250,000	—	74.9%	74.9%	USD187,250	Sales of telecommunication products, provision of after-sales services and technical support
ZTE PARSIAN	Iran	USD500,000	—	100%	100%	EUR377,500	Sales of telecommunication products, provision of after-sales services and technical support
ZTE (H.K) LIMITED ETHIOPIA BRANCH	Ethiopia	ETB900,000	—	100%	100%	USD100,000	Sales of telecommunication products, provision of after-sales services and technical support
ZTE DE VENEZUELA C.A.	Venezuela	VEB1,400,000,000	—	100%	100%	USD651,162.79	Sales of telecommunication products, provision of after-sales services and technical support
南京中興軟創軟件技術有限公司	Nanjing	RMB10,000,000	—	100%	100%	RMB10,000,000	Development and sales of software products and provision of related technical services

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(All amounts in RMB'000 unless otherwise stated)

### IV. CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

#### (3) Jointly-controlled entity

Full name of subsidiary and jointly-controlled entity	Place of registration	Registered capital	Percentage of equity interests held by the Company			Investment by the Group	Principal operations
			Direct	Indirect	Effective		
Bestel Communications Ltd.	Cyprus	CYP600,000	—	50%	50%	CYP150,000	Sales of communications products and provision of after-sale services

#### (4) Associates

Full name of associates	Place of registration	Registered capital	Percentage of equity interests held by the Company			Investment by the Group	Principal operations
			Direct	Indirect	Effective		
ZTE IC Design Co., Ltd	Shenzhen	RMB64,000,000	34%	—	34%	RMB29,240,000	Design, development, production and marketing of various ICs and related electronic applications
Wuxi KaiEr Technology Company, Limited	Wuxi	RMB10,000,000	—	30.88%	30.88%	RMB3,500,000	R&D and manufacture of optoelectronics products, development of optoelectronics technologies, sales of self produced products and provision of related services
Shenzhen Zhongxing Xinyu FPC Company, Limited	Shenzhen	RMB11,000,000	—	22.7%	22.7%	RMB2,500,000	Development, manufacture and sales of single-layered, double-layered, multilayered and rigid-flexible reflexible printed integrated circuits; import and export of goods and technologies (excluding items prohibited and restricted under the laws, constitutions and as decided by the State Council)

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## IV. CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

## (4) Associates (continued)

Full name of associates	Place of registration	Registered capital	Percentage of equity interests held by the Company			Investment by the Group	Principal operations
			Direct	Indirect	Effective		
Shenzhen Weigao Semiconductor Company, Limited	Shenzhen	RMB10,000,000	—	40%	40%	RMB4,000,000	Development, design and sales of semi-conductor circuit package; domestic business and supply of materials and resources (excluding franchised, state-controlled and monopolized merchandises and restricted items); promotion of industries (separate declaration was required for specific items)
Beijing Zhongxing Yuanjing Technology Co., Ltd	Beijing	RMB10,000,000	30%	—	30%	RMB3,000,000	R&D and manufacture, software products of the data centre and metropolitan campus networks
KAZNURTEL Limited Liability Company	Kazakstan	USD3,000,000	49%	—	49%	RMB3,988,400	Manufacture and sales of telecom equipment and provision of corresponding technical support, aftersale services, trainings and consultation; installation and construction of CDMA45MWLL and provision of corresponding telecom services and value-added services
Shenzhen Smart Electronics Company, Limited	Shenzhen	HKD30,000,000	—	30%	30%	HKD5,000,000	Development and production of parts and components for novel instruments
中興軟件技術(南昌)有限公司	Nanchang	RMB15,000,000	30%	—	30%	RMB4,500,000	Development and application of software technology, systems integration, network engineering, technology consultancy and services

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### IV. CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

#### (4) Associates (continued)

Full name of associates	Place of registration	Registered capital	Percentage of equity interests held by the Company			Investment by the Group	Principal operations
			Direct	Indirect	Effective		
深圳市聚飛光電有限公司	Shenzhen	RMB15,000,000	—	30%	30%	RMB4,500,000	Development, production and sales of optoelectronic components, sensitive components, sensors, diodes, SM DLED, LED and optoelectronic component application products; sales of electronic components; export and import of goods and technology
深圳市富德康電子有限公司	Shenzhen	RMB6,000,000	—	30%	30%	RMB1,800,000	Manufacture and sales of electronic products; import and export of goods and technologies
深圳市鼎力網絡有限公司	Shenzhen	RMB10,000,000	—	35%	35%	RMB3,500,000	Development, sales purchase and maintenance of telecommunication products and related components; provision of value-added services and advertising services
WANAAG COMMUNICATIONS LIMITED	Hong Kong	USD100,000	—	45%	45%	USD45,000	Provision of overseas call diversion services in Africa
Shenzhen Decang Technology Company Limited	Shenzhen	RMB2,500,000	—	40%	40%	RMB1,000,000	Development, manufacture and sales of optoelectronic and telecommunication products; import and export of products and technologies

## NOTES TO FINANCIAL STATEMENTS

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

**1. Cash and cash equivalents**

Item		30 June 2007			31 December 2006		
		Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Cash	RMB	9,488	1.0000	9,488	285	1.0000	285
	USD	944	7.6155	7,189	1,004	7.8087	7,840
	HKD	15	0.9744	15	95	1.0047	95
	THB	96	0.2219	21	460	0.2178	100
	SAR	131	2.0362	266	179	2.0879	374
	EUR	310	10.2337	3,172	—	—	—
	BRL	15	3.9072	59	16	3.6523	58
	MRO	21,898	0.0295	646	55,424	0.0293	1,624
	DZD	7,225	0.1058	764	—	—	—
	GBP	141	15.2455	2,150	3	15.5549	47
	INR	3,829	0.1692	648	6,349	0.1757	1,116
	PKR	172	0.1258	22	871	0.1283	112
	IRR	383,750	0.0008	307	—	—	—
	Others			1,022			395
Sub-total			25,769			12,046	

## NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

(All amounts in RMB'000 unless otherwise stated)

(English translation for reference only)

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

## 1. Cash and cash equivalents (continued)

Item	30 June 2007			31 December 2006			
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent	
Bank deposits	RMB	3,075,779	1.0000	3,075,779	1,888,669	1.0000	1,888,669
	USD	240,350	7.6155	1,830,385	196,734	7.8087	1,536,237
	HKD	51,548	0.9744	50,228	183,311	1.0047	184,173
	IQD	878,548	0.0062	5,447	786,017	0.0062	4,873
	BRL	4,544	3.9072	17,754	1,565	3.6523	5,716
	JPY	24,191	0.0618	1,495	70,798	0.0656	4,644
	PKR	284,785	0.1258	35,826	296,881	0.1283	38,090
	EGP	14,187	1.3384	18,988	9,777	1.3699	13,394
	RUB	100,267	0.2963	29,709	66,092	0.3003	19,847
	SEK	2,191	1.1212	2,457	17,503	1.1418	19,985
	THB	38,982	0.2219	8,650	25,727	0.2178	5,603
	IDR	5,247,500	0.0008	4,198	6,473,322	0.0009	5,826
	COP	2,256,410	0.0039	8,800	1,543,200	0.0035	5,401
	VND	—	—	—	5,698,348	0.0005	2,849
	INR	218,115	0.1692	36,905	98,549	0.1757	17,315
	EUR	13,511	10.2337	138,268	23,042	10.2665	236,561
	VEB	2,922,857	0.0035	10,230	1,248,802	0.0036	4,496
	ARS	2,989	2.4566	7,343	1,781	2.5271	4,501
	DZD	292,902	0.1058	30,989	199,541	0.1132	22,588
	GBP	209	15.2455	3,186	236	15.5549	3,671
	PHP	74,825	0.1660	12,421	—	—	—
	ZAR	1,662	1.0879	1,808	—	—	—
	LYD	—	—	—	185	6.1005	1,129
	AUD	—	—	—	10,451	6.1559	64,335
	SAR	—	—	—	213	2.0879	445
	TJR	—	—	—	1,833	2.2789	4,177
	MYR	736	2.2074	1,625	—	—	—
	AED	28,025	2.0864	58,471	—	—	—
	NPR	25,659	0.1154	2,961	—	—	—
	MRO	65,695	0.0295	1,938	—	—	—
	NGN	211,745	0.0573	12,133	—	—	—
	XOF	413,355	0.0155	6,407	—	—	—
	ETB	3,825	0.8684	3,322	—	—	—
	Others	—	—	46,053	—	—	9,391
Sub-total				5,463,776			4,103,916

## NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)  
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**V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED)** (continued)

**1. Cash and cash equivalents** (continued)

Item	30 June 2007			31 December 2006		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Other RMB	91,922	1.0000	91,922	183,511	1.0000	183,511
currencies USD	2,499	7.6155	19,031	1,063	7.8087	8,301
HKD	243	0.9744	237	4	1.0047	4
JPY	—	—	—	49,986	0.0656	3,279
Others			6,285			3
Sub-total			117,475			195,098
Total			5,607,020			4,311,060

**2. Tradable financial assets**

	30 June 2007			31 December 2006		
	Investment cost	Provision for impairment	Balance at the end of the period	Investment cost	Provision for impairment	Balance at the end of the period
Forward exchange contracts	24,811	—	24,811	—	—	—
Equity investment — stocks	—	—	—	33,288	—	33,288
	24,811	—	24,811	33,288	—	33,288

There was no significant restriction relating to the Group's realization of investment.

**3. Bills receivables**

	30 June 2007	31 December 2006
Bank acceptance bills	655,343	461,300
Commercial acceptance bills	2,221,502	1,197,106
Total	2,876,845	1,658,406

No outstanding amount due from shareholders holding 5% or more in the voting shares as at the end of the period.



## NOTES TO FINANCIAL STATEMENTS

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

#### 4. Trade receivables

Aging analysis of trade receivables was as follows:

##### *The Group*

	30 June 2007				31 December 2006			
	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
Within one year	5,834,028	86.17%	63,020	1.08%	5,321,442	85.02%	87,201	1.64%
Between one to two years	697,458	10.30%	322,957	46.30%	746,133	11.92%	297,550	39.88%
Between two to three years	144,298	2.13%	133,976	92.85%	106,137	1.70%	93,013	87.63%
Over three years	94,527	1.40%	92,372	97.72%	85,476	1.36%	79,093	92.53%
	<b>6,770,311</b>	<b>100%</b>	<b>612,325</b>		6,259,188	100%	556,857	
Less: accounts due within one year	6,442,145	95.15%	612,325		5,886,485	94.05%	556,857	
Long-term portion	328,166	4.85%	—		372,703	5.95%	—	

In this table, "long term portion" refers to trade receivables in respect of which a credit period of over one year has been granted to customers pursuant to the terms of a contract that the Group has fulfilled.

Of the balance of trade receivables as at the end of the period, RMB1,113,000 was due from shareholders holding 5% or more in the voting shares. Please refer to Note VII to the financial statements, Relationship with connected parties and connected transactions.

The top five balances amounted to RMB1,955,103,000, accounting for 29% of the total balance of trade receivables.

##### *The Company*

	30 June 2007				31 December 2006			
	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
Within one year	6,323,008	82.59%	47,839	0.76%	5,602,594	85.53%	74,589	1.33%
Between one to two years	893,531	11.67%	257,391	28.81%	627,764	9.58%	252,269	40.19%
Between two to three years	267,511	3.49%	121,133	45.28%	205,237	3.13%	70,022	34.12%
Over three years	171,403	2.25%	74,011	43.18%	115,007	1.76%	72,348	62.91%
	<b>7,655,453</b>	<b>100%</b>	<b>500,374</b>		6,550,602	100%	469,228	
Less: accounts due within one year	7,327,287	95.71%	500,374		6,222,436	95.00%	469,228	
Long-term portion	328,166	4.29%	—		328,166	5.00%	—	

The top five balances of trade receivables amounted to RMB1,779,019,000, accounting for 23% of the total balance of trade receivables at the end of the period.

No outstanding amount due from shareholders holding 5% or more in the voting shares as at the end of the period.

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5. As at 30 June 2007, the Company and its subsidiaries had entered into an agreement with a bank, trade receivables amounting to RMB2,384,142,000 were factored to obtain bank advances. According to the factoring agreement, if the client delayed repayment, the Company and its subsidiary would be obliged to pay interests in respect of the delayed repayment. In accordance with Enterprise Accounting Standard No. 23 "Derecognition of Financial Assets," the factored trade receivables and bank advances on factored trade receivables of the Group were reflected in the balance sheet as the risks and rewards associated with the creditor rights had not been fully transferred.

#### 6. Prepayments

Aging analysis of prepayments was as follows:

	30 June 2007		31 December 2006	
	Balance	Percentage	Balance	Percentage
Within one year	293,679	98.95%	49,749	96.12%
Between one to two years	3,112	1.05%	2,008	3.88%
<b>Total</b>	<b>296,791</b>	<b>100%</b>	<b>51,757</b>	<b>100%</b>

No outstanding amount due from shareholders holding 5% or more in the voting shares as at the end of the period.

The balance of prepayments increased by 473.43% compared with that at the beginning of the year, which was mainly due to the increase in the purchases of raw materials and fixed assets with terms of prepayments during the period.

#### 7. Other receivables

Aging analysis of other receivables was as follows:

*The Group*

	30 June 2007				31 December 2006			
	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
Within one year	1,191,119	70.51%	640,144	53.74%	830,837	62.44%	543,514	65.42%
Between one to two years	234,146	13.86%	160,530	68.56%	296,228	22.26%	151,678	51.20%
Between two to three years	105,660	6.25%	63,226	59.84%	48,990	3.68%	40,959	83.61%
Over three years	158,412	9.38%	158,412	100%	154,593	11.62%	154,593	100%
<b>Total</b>	<b>1,689,337</b>	<b>100%</b>	<b>1,022,312</b>		<b>1,330,648</b>	<b>100%</b>	<b>890,744</b>	

The top five balances of other receivables amounted to RMB218,135,000, accounting for 13% of the total balance of other receivables of the Group at the end of the period.

No outstanding amount due from shareholders holding 5% or more in the voting shares as at the end of the period.

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#### 7. Other receivables (continued)

*The Company*

	30 June 2007				31 December 2006			
	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
Within one year	1,301,845	58.55%	599,161	46.02%	579,916	28.08%	511,987	88.29%
Between one to two years	491,041	22.08%	160,093	32.60%	691,790	33.50%	148,813	21.51%
Between two to three years	254,715	11.46%	62,375	24.49%	570,066	27.61%	40,392	7.09%
Over three years	175,921	7.91%	146,242	83.13%	223,229	10.81%	143,711	64.38%
	<b>2,223,522</b>	<b>100%</b>	<b>967,871</b>		2,065,001	100%	844,903	

The top five balances of other receivables amounted to RMB736,942,000, accounting for 33% of the total balance of other receivables of the Group at the end of the period.

No outstanding amount due from shareholders holding 5% or more in the voting shares as at the end of the period.

#### 8. Inventories

	30 June 2007	31 December 2006
Raw materials	1,774,733	1,313,470
Materials under sub-contract processing	87,734	58,215
Work-in-progress	1,614,980	713,127
Finished goods	1,238,036	845,005
	<b>4,715,483</b>	2,929,817
Less: impairment provision	515,195	448,662
	<b>4,200,288</b>	2,481,155

The balance increased by 60.95% compared with that at the beginning of the year mainly as a result of increased purchases in line with sales growth and the increased number of contracts under execution.

#### 9. Construction contracts

	30 June 2007	31 December 2006
Amount due from customers for contract work	9,309,086	5,833,480
Amount due to customers for contract work	(1,557,914)	(996,275)
	<b>7,751,172</b>	4,837,205
Contract costs incurred plus recognised profits less recognised losses to date	25,815,363	21,619,372
Less: progress billings	(18,064,191)	(16,782,167)
	<b>7,751,172</b>	4,837,205

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

9. Construction contracts (continued)

Category	30 June 2007	31 December 2006
Construction work	5,574,349	3,094,588
Goods delivered	2,176,823	1,742,617
Total	7,751,172	4,837,205

The balance of amount due from customers for contract work at the end of the period increased by 59.58% compared with that at the beginning of the year, reflecting mainly the fact that the progress of construction contract work completion had been ahead of payment schedules stipulated in the contract;

The balance of amount due to customers for contract work at the end of the period increased by 56.37% compared with that at the beginning of the year, reflecting mainly the increase of advance payments from customers in line with the increase in the number of construction contracts obtained.

10. Available-for-sale financial assets

The Group

	30 June 2007	31 December 2006
Available-for-sale equity investments	43,488	43,488

Name of investee	Share of registered capital	Initial investment	Opening balance	Increase/ Decrease during the period	Closing balance
深圳市創新投資集團有限公司	0.33%	5,000	5,000	—	5,000
北京中視聯數字系統有限公司	7.59%	3,240	3,240	—	3,240
中移鼎訊通信股份有限公司	16%	32,000	32,000	—	32,000
Beijing Zhongxing Intelligent Transportation Systems Ltd.	19%	1,024	1,024	—	1,024
SunTop Technologies Ltd.	26.54%	24	24	—	24
杭州中興發展有限公司	10%	2,000	2,000	—	2,000
貴州艾瑪特信息超市項目開發有限公司	10%	200	200	—	200
		43,488	43,488	—	43,488

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

#### 10. Available-for-sale investments (continued)

*The Company*

		<b>30 June 2007</b>	31 December 2006		
Available-for-sale equity investments		<b>41,488</b>	41,488		
Investee	Share of registered capital	Initial investment	Opening balance	Increase/ Decrease during the period	Closing balance
深圳市創新投資集團有限公司	0.33%	5,000	5,000	—	5,000
北京中視聯數字系統有限公司	7.59%	3,240	3,240	—	3,240
SunTop Technologies Ltd.	26.54%	24	24	—	24
Beijing Zhongxing Intelligent Transportation Systems Ltd.	19%	1,024	1,024	—	1,024
中移鼎訊通信股份有限公司	16%	32,000	32,000	—	32,000
貴州艾瑪特信息超市項目開發有限公司	10%	200	200	—	200
		41,488	41,488	—	41,488

#### 11. Long-term equity investments

*The Group*

		<b>30 June 2007</b>	31 December 2006
Equity investments under equity method			
Interests in associates	(1)	<b>49,782</b>	51,257
Interests in jointly-controlled entities	(2)	<b>2,120</b>	5,936
		<b>51,902</b>	57,193
Less: provision for impairment in long-term equity investments		—	—
		<b>51,902</b>	57,193

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

**11. Long-term equity investments** (continued)

*The Group* (continued)

(1) Interests in associates

Investee	Share of registered capital	Initial investment	Opening balance	Increase/ (decrease) of investment cost during the period	Increase/ (decrease) of interests during the period	Closing balance
深圳市富德康電子有限公司	30%	1,800	1,525	—	—	1,525
ZTE IC Design Co., Ltd	34%	30,000	15,826	(2,533)	1,058	14,351
Beijing Zhongxing Yuanjing Technology Co., Ltd.	30%	3,000	316	—	—	316
KAZNURTEL Limited Liability Company	49%	1,012	2,477	—	—	2,477
Wuxi KaiEr Technology Company, Limited	30.88%	3,500	4,862	—	—	4,862
Shenzhen Zhongxing Xinyu FPC Company, Limited	22.73%	2,500	3,830	—	—	3,830
Shenzhen Weigao Semiconductor Company, Limited	40%	4,000	2,716	—	—	2,716
Shenzhen Decang Technology Company Limited	40%	1,000	4,815	—	—	4,815
深圳市聚飛光電有限公司	30%	4,500	4,180	—	—	4,180
中興軟件技術(南昌)有限公司	30%	4,500	3,293	—	—	3,293
Shenzhen Smart Electronics Company, Limited.	30%	3,335	4,137	—	—	4,137
深圳市鼎力網絡有限公司	35%	3,500	3,187	—	—	3,187
WANAAG Communications Limited	45%	351	93	—	—	93
		62,998	51,257	(2,533)	1,058	49,782

(2) Interests in jointly-controlled entities

Investee	Share of registered capital	Initial investment	Opening balance	Increase/ (decrease) of investment cost during the period	Increase/ (decrease) of interests during the period	Closing balance
Beijing Zhongxingxin Communication Equipment Company Limited	50%	2,500	3,816	(4,465)	649	—
Bestel Communications Ltd.	50%	2,050	2,120	—	—	2,120
		4,550	5,936	(4,465)	649	2,120

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

*The Company*

		<b>30 June 2007</b>	31 December 2006
Equity investment under cost method			
Interests in subsidiaries	(3)	<b>2,578,544</b>	2,573,949
Equity investment under equity method			
Interests in jointly-controlled entities	(4)	—	3,816
Interests in associates	(5)	<b>20,437</b>	21,912
		<b>2,598,981</b>	2,599,677
Less: provision for impairment of long-term investments		—	—
		<b>2,598,981</b>	2,599,677

(3) Interests in subsidiaries

Investee	Share of registered capital	Opening balance	Increase/ (decrease) of investment cost during the period	Increase/ (decrease) of interests during the period	Dividend declared during the period	Closing balance
ZTE Kangxun Telecom Co., Ltd.	90%	1,455,133	—	—	—	1,455,133
ZTE (USA) Inc.	100%	(82,461)	—	—	—	(82,461)
Wuxi Zhongxing Optoelectronics Technologies Company, Limited	65%	41,777	—	—	—	41,777
ZTE (H.K.) Limited	100%	229,325	—	—	—	229,325
Anhui Wantong Post and Telecommunications Company, Limited	51%	26,219	—	—	—	26,219
Telrise (Cayman) Telecom Ltd.	52.85%	2,705	—	—	—	2,705
深圳市國鑫電子發展有限公司	90%	3,356	—	—	—	3,356
Congo-Chine Telecom S.A.R.L	51%	68,983	—	—	(400)	68,583
Yangzhou Zhongxing Mobile Telecom Equipment Co., Limited	65%	(31,015)	—	—	—	(31,015)
ZTE Mobile Tech Co., Limited	95%	68,074	—	—	—	68,074
南京中興軟創科技有限責任公司	76%	162,419	—	—	—	162,419
ZTE(UK) Limited	100%	(33,680)	—	—	—	(33,680)
ZTE do Brasil Ltda	100%	(43,084)	5,359	—	—	(37,725)
Shenzhen Zhongxing Software Company, Limited	73%	568,604	—	—	—	568,604
ZTE Integration Telecom Ltd	75%	36,353	—	—	—	36,353
ZTE Wistron Telecom AB	100%	2,378	—	—	—	2,378
ZTE-Communication Technologies, Ltd.	100%	10,536	—	—	—	10,536
ZTE Corporation Mexico S. DE R. L DE C.V.	100%	(19,902)	—	—	—	(19,902)
Shenzhen Changfei Investment Company Limited	51%	61,141	—	—	—	61,141

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**11. Long-term equity investments** (continued)

*The Company* (continued)

(3) Interests in subsidiaries (continued)

Investee	Share of registered capital	Opening balance	Increase/ (decrease) of investment cost during the period	Increase/ (decrease) of interests during the period	Dividend declared during the period	Closing balance
Zhongxing Telecom Pakistan (Private) Limited	93%	45,395	—	—	—	45,395
Guangdong New Pivot Technology & Service Company, Limited	90%	14,689	—	—	—	14,689
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	90%	(125,394)	—	—	—	(125,394)
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited	51%	17,942	—	—	—	17,942
ZTE Holdings (Thailand) Co., Ltd.	49%	(24)	—	—	—	(24)
ZTE (Thailand) Co., Ltd.	49%	1,025	2,996	—	—	4,021
Shenzhen Zhongxing Special Equipment Company, Limited	54%	4,719	—	—	(540)	4,179
ZTE Telecom India Private Ltd.	100%	(68,559)	—	—	—	(68,559)
ZTE Romania S.R.L.	100%	(13,752)	—	—	—	(13,752)
ZTE (Malaysia) Corporation SDN.BHD.	100%	(7,790)	—	—	—	(7,790)
ZiMax (Cayman) Holding Ltd.	100%	45,332	—	—	—	45,332
西安中興精誠通訊有限公司	70%	12,980	—	—	—	12,980
Closed Joint Stock Company TK Mobile	51%	11,209	—	—	—	11,209
PT. ZTE Indonesia	99.5%	73,857	—	—	—	73,857
深圳中興力維技術有限公司	30%	35,459	—	—	(2,820)	32,639
		2,573,949	8,355	—	(3,760)	2,578,544

(4) Interests in jointly-controlled entities

Investee	Share of registered capital	Opening balance	Increase/ (decrease) of investment cost during the period	Increase/ (decrease) of interests during the period	Closing balance
Beijing Zhongxingxin Communication Equipment Company Limited	50%	3,816	(4,465)	649	—



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

*The Company* (continued)

(5) Interests in associates

Investee	Share of registered capital	Opening balance	Increase/ (decrease) of investment cost during the period	Increase/ (decrease) of interests during the period	Closing balance
Beijing Zhongxing Yuanjing Technology Co., Ltd	30%	316	—	—	316
KAZNURTEL Limited Liability Company	49%	2,477	—	—	2,477
中興軟件技術(南昌)有限公司	30%	3,293	—	—	3,293
ZTE IC Design Co., Ltd	34%	15,826	(2,533)	1,058	14,351
		21,912	(2,533)	1,058	20,437

#### 12. Fixed assets

	Buildings	Leasehold improvement	Electronic equipment	Machinery equipment	Motor vehicles	Other equipment	Total
Cost:							
Opening balance	935,325	71,704	1,774,751	1,195,875	238,044	18,875	4,234,574
Additions	13,478	—	115,228	117,040	24,775	7,902	278,423
Transferred from Construction in progress	128,459	—	267	—	—	—	128,726
Disposal and retirement	(291)	—	(131,110)	(5,636)	(7,087)	(881)	(145,005)
Exchange realignments	(115)	(51)	(19,184)	6,520	(280)	210	(12,900)
Closing balance	1,076,856	71,653	1,739,952	1,313,799	255,452	26,106	4,483,818
Accumulated depreciation:							
Opening balance	144,359	47,373	820,411	453,671	80,211	9,689	1,555,714
Provision	16,378	3,696	139,059	79,540	12,862	1,792	253,327
Disposed and retirement	(3)	—	(52,842)	(4,596)	(4,326)	(132)	(61,899)
Exchange realignments	(25)	(1)	(3,719)	(53)	(77)	12	(3,863)
Closing balance	160,709	51,068	902,909	528,562	88,670	11,361	1,743,279
Provision for impairment:							
Opening and closing balance	7,708	—	77,819	1,475	—	—	87,002
Fixed assets, net							
30 June, 2007	908,439	20,585	759,224	783,762	166,782	14,745	2,653,537
31 December, 2006	783,258	24,331	876,521	740,729	157,833	9,186	2,591,858

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13. Construction in progress

Name of construction project	Budget	Opening balance	Increase during the period	Transfer to fixed assets during the period	Closing balance	Source of funds	Status of project
Liuxiandong ZTE Industrial Park	650,000	191,818	177,734	—	369,552	Internal resources	Work in progress
Nanjing phase II	135,000	90,457	42,925	128,459	4,923	Internal resources	Basically completed
Shanghai phase II	—	92,667	60,681	—	153,348	Internal resources	Work in progress
Nanjing phase III	—	18,090	74,193	—	92,283	Internal resources	Work in progress
Installation of equipment	—	60,747	19,752	267	80,232	Internal resources	Work in progress
Others	—	15,857	2,430	—	18,287		
Total		469,636	377,715	128,726	718,625		

The balance increased dramatically by 53.02% compared with that at the beginning of the period, which was mainly attributable to the increased investment in the construction of the Group's ZTE Industrial Park and research and development centers in Nanjing and Shanghai.

14. Intangible assets

	Initial amount	Method of acquisition	Opening balance	Increase/(decrease) during the period	Amortisation during the period	Accumulated amortisation	Closing balance	Remaining years for amortisation
Software	296,901	Acquisition	105,527	24,717	24,069	190,726	106,175	4.5 years
Patent technology	1,355	Acquisition	1,038	—	154	471	884	1-10 years
Land use rights	47,620	Acquisition	14,026	32,754	284	1,124	46,496	49 years
Operating concession	101,734	Acquisition	59,224	(1,273)	1,793	45,576	56,158	15.5 years
Total			179,815	56,198	26,300	237,897	209,713	

Provision for impairment of intangible assets is as follows:

	Opening and closing balance
Software	12,884
Land use rights	6,322
Operating concession	7,750
Total	26,956

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#### 15. Deferred tax assets

	<b>30 June 2007</b>	31 December 2006
Unrealised profit of stock	<b>19,612</b>	7,298
Provision for maintenance	<b>22,311</b>	34,562
Tax losses to be deducted	<b>51,141</b>	51,141
Overseas tax to be deducted	<b>128,449</b>	87,516
Provision for impairment of inventories	<b>51,247</b>	53,166
Capitalisation of R&D costs	<b>(22,760)</b>	(22,760)
	<b>250,000</b>	210,923

#### 16. Long-term deferred assets

A subsidiary of the Group entered into an international construction contract with Algerie Telecom for the provision of telecommunications equipment. According to the agreement, the subsidiary of the Group will be entitled to certain percentage of the income of the project for a period of 5 years following the commissioning of the project in February 2006. The ownership of the telecommunications equipment concerned will be passed to Algerie Telecom after 5 years at nil consideration. As at 30 June 2007, the project had been partially completed. Such assets would be amortised over 5 years since the commissioning of the project.

Equipment	Original cost	Opening balance	Addition during the period	Amortisation during the period	Accumulated amortisation	Closing balance
Broadband network construction for Algeria	62,489	40,416	13,990	7,010	15,093	47,396

#### 17. Short-term loans

	<b>30 June 2007</b>			31 December 2006		
	<b>Original currency (in thousands)</b>	<b>RMB equivalent (in thousands)</b>		<b>Original currency (in thousands)</b>	<b>RMB equivalent (in thousands)</b>	
Credit loans	<b>RMB 87,300</b>	<b>87,300</b>	RMB	78,900	78,900	
	<b>USD 125,000</b>	<b>951,938</b>	USD	95,000	741,826	
Pledged loans	<b>RMB 25,000</b>	<b>25,000</b>	RMB	125,000	125,000	
		<b>1,064,238</b>				945,726

The balance increased by 12.53% compared with that at the beginning of the year, owing to the increase in USD loans in order to facilitate the need of liquid capital.

#### 18. Bills payable

Of the balance of bills payable as at the end of the period, RMB99,047,000 was due to shareholders holding 5% or more in the voting shares of the Company. Please refer to Note VII to the financial statements, Relationship with connected parties and connected transactions.

Bills payable at the end of the period increased by 113.88% as compared with that at the beginning of the year mainly as a result of increased use of bills by the Group as a payment method.

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

**19. Trade payables**

Of the balance of accounts payable, RMB82,027,000 was due to shareholders of the Company holding 5% or more in the voting shares of the Company. Please refer to Note VII to the financial statements, Relationship with connected parties and connected transactions.

**20. Advances from customers**

No outstanding amount due to shareholders holding 5% or more in the voting shares of the Company.

**21. Accrued payroll**

	<b>30 June 2007</b>	31 December 2006
Accrued payroll	<b>876,691</b>	1,090,862

The balance reduced by 19.63% compared with that at the beginning of the year mainly as a result of the payout of salaries and bonuses accounted for at the end of the previous year.

**22. Taxes payable**

	<b>30 June 2007</b>	31 December 2006
Value-added tax ("VAT")	<b>(1,377,106)</b>	(1,023,281)
Business tax	<b>(2,003)</b>	4,752
City maintenance and construction tax	<b>2,276</b>	6,000
Income tax		
PRC tax	<b>51,051</b>	67,950
Overseas tax	<b>214,886</b>	229,963
Education surcharge	<b>300</b>	8,891
Property tax	<b>(1,263)</b>	22
Individual income tax	<b>22,024</b>	14,936
	<b>(1,089,835)</b>	(690,767)

Taxes payable at the end of the period decreased by 57.77% as compared with that at the beginning of the year mainly as a result of the increase in input VAT.

**23. Dividends payable**

	<b>30 June 2007</b>	31 December 2006
Holders of State-owned corporate shares	<b>53,844</b>	—
Other investors	<b>144,636</b>	83,941
	<b>198,480</b>	83,941

The balance increased by RMB114,539,000 compared with that at the beginning of the year, mainly reflecting dividend distributed to shareholders for 2006 in accordance with the resolution of the general meeting.

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#### 24. Other payables

Of the balance, RMB313,000 payable to shareholders holding 5% or more in the voting shares of the Company. Please refer to Note VII to the financial statements, Relationship with connected parties and connected transactions.

#### 25. Provision

	30 June 2007	31 December 2006
Estimated expenses on penalties	—	4,035
Guarantees for quality of products	27,765	31,645
Provision for product maintenance	114,564	256,152
	<b>142,329</b>	291,832

#### 26. Long-term liabilities due within one year

	30 June 2007	31 December 2006
Long-term loans	580,000	—

#### 27. Long-term loans

Type of loans	30 June 2007			31 December 2006		
		Original currency (in thousands)	RMB equivalent (in thousands)		Original currency (in thousands)	RMB equivalent (in thousands)
Credit loans	RMB	1,400,000	1,400,000	RMB	900,026	900,026
	USD	119,500	910,052	USD	55,000	429,479
Guaranteed loans	RMB	614,810	614,810	USD	10,245	80,000
Pledged loans	INR	14,629	2,476	USD	34,543	269,737
	USD	63,000	479,777			
Less: long-term loans due within one year			580,000			—
			<b>2,827,115</b>			1,679,242

The balance of long-term loans increased dramatically by 68.36% compared with that at the beginning of the year. The increase mainly resulted from the need for working capital and construction funds.

#### 28. Specific payables

	30 June 2007	31 December 2006
Technology appropriations	80,000	80,000

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**29. Share capital**

The Company has registered and paid-in capital of RMB959,521,650 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. Circulating shares					
(I) Restricted Shares					
1. State owned corporate shares	310,983	32.41%	—	310,983	32.41%
2. Other domestic shares	1,281	0.13%	(308)	973	0.10%
Including:					
Domestic corporate shares	—	—	—	—	—
Domestic natural person shares	1,281	0.13%	(308)	973	0.10%
3. Foreign shares					
Foreign corporate shares	—	—	—	—	—
Total number of restricted shares	312,264	32.54%	(308)	311,956	32.51%
(II) Unrestricted shares					
1. RMB ordinary shares	487,107	50.77%	308	487,415	50.80%
2. Overseas listed foreign shares	160,151	16.69%	—	160,151	16.69%
Total number of unrestricted shares	647,258	67.46%	308	647,566	67.49%
Total circulating shares	959,522	100%	—	959,522	100%
II. Total shares	959,522	100%	—	959,522	100%

**30. Capital surplus**

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium	5,462,657	—	—	5,462,657
Provision for acceptance of non-cash asset donation	62	—	—	62
Provision for equity investments	38,398	—	—	38,398
Share incentives	2,480	148,834	—	151,314
Other capital reserves*	6,069	—	—	6,069
Total	5,509,666	148,834	—	5,658,500

\* Other capital reserve represented the disposal of accounts payable overdue for 3 years by the Group.

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

#### 31. Surplus reserve

	<b>Opening and closing balance</b>
Surplus reserve	<u>1,331,059</u>

In accordance with the Company Law of the PRC and the articles of associations, the Company and certain of its subsidiaries are required to allocate 10% of their profit after tax, as determined in accordance with PRC accounting standards and regulations applicable to these companies, to the statutory surplus reserve (the "SSR") until such reserves reach 50% of the registered capitals of these companies. Part of the SSR may be capitalised as these companies' share capitals or applied to make up losses, provided that the remaining balances after the capitalisation are not less than 25% of the registered capitals of these companies.

Certain of the Company's subsidiaries are Chinese foreign equity joint ventures. In accordance with the "Law of the People's Republic of China or Chinese-Foreign Equity Joint Ventures" and their respective articles of association, these subsidiaries are required to transfer a portion of their net profit as determined in accordance with PRC accounting standards and related regulations applicable to these companies, to the enterprise development fund, reserve fund and staff welfare and reward fund. The percentage of transfer will be determined by the Board of Directors.

The Company and its subsidiaries did not make any transfers to statutory reserves during the period.

#### 32. Undistributed profit

	<b>Opening balance</b>	<b>Increase during the period</b>	<b>Decrease during the period</b>	<b>Closing balance</b>
Undistributed profit	<u>2,996,579</u>	459,840	143,928	<u>3,312,491</u>

The decrease during the period comprised the payment of RMB1.5 in cash for every 10 share or an aggregate of RMB143,928,000 on the basis of the total share capital as at 31 December 2006 according to the 2006 profit distribution plan declared by the second meeting of the fourth session of the Board of Directors of the Company. Profit available for distribution to owners was carried at the lower of the financial statements prepared under PRC GAAP and those under HKFRSs.

#### 33. Revenue and cost of sales

Revenue refers to the revenue from sales of products and labour services. Segment information of the Group and the Company is set out in the business and geographical segments given in Note VI.

Sales to the top five customers of the Group generated revenue of RMB6,271,511,000 and RMB5,446,354,000 for the six months ended 30 June 2007 and 2006 respectively, accounting for 41.17% and 51.43% of the revenue of the Group respectively.

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**34. Taxes and surcharges**

	<b>Six months ended 30 June 2007</b>	Six months ended 30 June 2006
Business tax	<b>74,412</b>	10,156
City maintenance and construction tax	<b>8,495</b>	8,542
Education surcharge	<b>11,482</b>	10,132
Others	<b>22,865</b>	15,114
	<b>117,254</b>	43,944

Business tax and surcharges increased by 1.67 times over the same period last year mainly as a result of higher business tax in line with increased service revenue.

**35. Finance expenses**

	<b>Six months ended 30 June 2007</b>	Six months ended 30 June 2006
Interest expenses	<b>119,877</b>	53,977
Less: Interest income	<b>17,757</b>	26,347
Foreign exchange losses/(gain)	<b>28,813</b>	(17,210)
Cash discounts and interest subsidy	<b>37,216</b>	18,178
Bank charges	<b>22,219</b>	25,466
Total	<b>190,368</b>	54,064

Finance expenses for the period increased by 2.52 times over the same period last year mainly as a result of increased interest expenses in line with increased loans coupled with the increase in exchange losses.

**36. Losses on impairment of assets**

	<b>Six months ended 30 June 2007</b>	Six months ended 30 June 2006
Impairment on trade receivables	<b>79,804</b>	(48,643)
Impairment on inventories	<b>23,412</b>	(14,583)
Impairment on prepayments	<b>(7,296)</b>	(2,365)
	<b>95,920</b>	(65,591)

**37. Gains from the change in fair value**

The gains from the change in fair value for the current period amounting to RMB24,811,000 represented forward exchange trading of the Group, the gains in change of value of which is re-assessed based on fair value at the end of the period prior to actual settlement.



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

#### 38. Investment gains

##### *The Group*

	<b>Six months ended 30 June 2007</b>	Six months ended 30 June 2006
Gain from stock investment	<b>6,878</b>	—
Share of profits of associates	<b>1,058</b>	694
Share of profits of jointly-controlled entities	<b>649</b>	—
Gains on transfer of equity investment	<b>181</b>	—
	<b>8,766</b>	694

As at the balance sheet date, the Group was not subject to significant restrictions in remitting its investment income. The amount of investment income increased by RMB8,072,000, which was mainly attributable to the gain from stock investment.

##### *The Company*

	<b>Six months ended 30 June 2007</b>	Six months ended 30 June 2006
Share of profits of jointly-controlled entities	<b>649</b>	—
Share of profits of associates	<b>1,058</b>	—
Losses on transfer of equity investment	<b>(2,239)</b>	—
Gain on disposal of financial instrument	<b>2,532</b>	—
Dividends received	<b>676,680</b>	—
	<b>678,680</b>	—

As at the balance sheet date, the Company was not subject to significant restrictions in remitting its investment income.

#### 39. Non-operating income

	<b>Six months ended 30 June 2007</b>	Six months ended 30 June 2006
Gains on disposal of fixed assets	<b>9</b>	—
Income from penalty payment	<b>4,183</b>	2,021
Income from compensation payment	<b>2,055</b>	4
Reward income	<b>807</b>	784
Refund of VAT on software products*	<b>323,324</b>	182,190
Government subsidies	<b>33,663</b>	11,362
Others	<b>10,703</b>	30,638
	<b>374,744</b>	226,999

Non-operating income increased by 65.09% compared to the same period last year mainly reflecting the increase in VAT refunds for software products.

\* Refund of VAT on software products represented the refund upon payment of VAT paid 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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**40. Non-operating expenses**

	<b>Six months ended 30 June 2007</b>	Six months ended 30 June 2006
Net loss on written off of assets	<b>5,683</b>	3,765
Donations	<b>92</b>	31
Penalties	<b>41,338</b>	1,874
Others	<b>1,098</b>	864
	<b>48,211</b>	6,534

Non-operating expenses increased by 6.38 times mainly as a result of increased penalty expenses incurred by the Group.

**41. Cash paid relating to other operating activities**

Cash paid relating to other operating activities in the consolidated cash flow statement at 30 June 2007 was RMB2,353,385,000, comprising mainly expenses related to market development and technology research and development.

**VI. SEGMENT INFORMATION BY INDUSTRY AND REGION**

*The Group*

	Revenue		Cost of sales		Gross profit	
	<b>Six months ended 30 June 2007</b>	Six months ended 30 June 2006	<b>Six months ended 30 June 2007</b>	Six months ended 30 June 2006	<b>Six months ended 30 June 2007</b>	Six months ended 30 June 2006
<b>Business Segments</b>						
Telecommunications systems construction income	<b>10,666,444</b>	7,229,527	<b>6,191,655</b>	4,239,024	<b>4,474,789</b>	2,990,503
Telecommunications terminal equipment	<b>4,301,512</b>	3,090,048	<b>3,323,129</b>	2,468,195	<b>978,383</b>	621,853
Telecommunications service income	<b>263,976</b>	269,325	<b>163,598</b>	104,375	<b>100,378</b>	164,950
	<b>15,231,932</b>	10,588,900	<b>9,678,382</b>	6,811,594	<b>5,553,550</b>	3,777,306

	Revenue		Cost of sales		Gross profit	
	<b>Six months ended 30 June 2007</b>	Six months ended 30 June 2006	<b>Six months ended 30 June 2007</b>	Six months ended 30 June 2006	<b>Six months ended 30 June 2007</b>	Six months ended 30 June 2006
<b>Geographical segments</b>						
Domestic	<b>7,261,335</b>	6,582,686	<b>4,545,611</b>	4,220,177	<b>2,715,724</b>	2,362,509
Overseas	<b>7,970,597</b>	4,006,214	<b>5,132,771</b>	2,591,417	<b>2,837,826</b>	1,414,797
	<b>15,231,932</b>	10,588,900	<b>9,678,382</b>	6,811,594	<b>5,553,550</b>	3,777,306

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### VI. SEGMENT INFORMATION BY INDUSTRY AND REGION (continued)

#### The Company

Business Segments	Revenue		Cost of sales		Gross profit	
	Six months ended 30 June 2007	Six months ended 30 June 2006	Six months ended 30 June 2007	Six months ended 30 June 2006	Six months ended 30 June 2007	Six months ended 30 June 2006
Telecommunications systems construction	10,387,232	7,088,730	8,446,596	5,414,035	1,940,636	1,674,695
Telecommunications terminal equipment	4,217,610	2,878,616	3,763,413	2,469,735	454,197	408,881
	<b>14,604,842</b>	9,967,346	<b>12,210,009</b>	7,883,770	<b>2,394,833</b>	2,083,576

  

Geographical Segments	Revenue		Cost of sales		Gross profit	
	Six months ended 30 June 2007	Six months ended 30 June 2006	Six months ended 30 June 2007	Six months ended 30 June 2006	Six months ended 30 June 2007	Six months ended 30 June 2006
Domestic	6,552,648	5,858,625	5,901,415	4,314,495	651,233	1,544,130
Overseas	8,052,194	4,108,721	6,308,594	3,569,275	1,743,600	539,446
	<b>14,604,842</b>	9,967,346	<b>12,210,009</b>	7,883,770	<b>2,394,833</b>	2,083,576

### VII. RELATIONSHIP WITH CONNECTED PARTIES AND CONNECTED TRANSACTIONS

#### 1. Connected parties with controlling relationship

Name of corporation	Principal operations	Place of registration	Relationship with the Company	Percentage of shares or equity holdings	Economic nature or category	Legal representative
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	Production of programmed switchboard cabinets, telephones and related components, and electronic products; import and export operations	Shenzhen, Guangdong	Controlling shareholder of the Company	35.49%	State-owned	Zhang Taifeng

#### 2. Registered capital of connected parties with controlling relationship and its movements

Name of corporation	Opening and closing balance
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	100,000,000

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## VII. RELATIONSHIP WITH CONNECTED PARTIES AND CONNECTED TRANSACTIONS (continued)

## 3. Movements in shares or equity held by connected parties with controlling relationship:

Name of corporation	Opening balance		Increased during the period		Decrease during the period		Closing balance	
	Amount	%	Amount	%	Amount	%	Amount	%
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	358,959	37.41%	—	—	18,425	1.92%	340,534	35.49%

## 4. Relationship with connected parties with non-controlling relationship

Details for connected parties with non-controlling relationship are as follow:

Name of related companies	Relationship with the Company
Shenzhen Zhongxing WXT Equipment Company, Ltd.	Shareholder of the Company's controlling shareholder
Xi'an Microelectronics Technology Research Institute	Shareholder of the Company's controlling shareholder
Shenzhen Zhongxing Information Technology Co., Ltd. controlling shareholder	Investee company of the shareholder of the Company's
Beijing Zhongxing Yuanjing Technology Co., Ltd	Associate
深圳市聚飛光電有限公司	Associate
Wuxi KaiEr Technology Company, Limited	Associate
Shenzhen Weigao Semiconductor Company, Limited	Associate
ZTE IC Design Co., Ltd	Associate
Shenzhen Decang Technology Company Limited	Associate
Shenzhen Smart Electronics Company, Limited	Associate
Shenzhen Zhongxing Xinyu FPC Company, Limited	Associate
Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	Under the same controlling shareholder as the Company
Lishan Microelectronics Corporation	Shareholder of the Company
吉林省郵電器材總公司	Shareholder of the Company
湖南南天集團有限公司	Shareholder of the Company
Beijing Zhongxingxin Communication Equipment Company Limited	Jointly-controlled entity
中興軟件技術(南昌)有限公司	Associate
Shenzhen Gaodonghua Communication Technology Co., Ltd.	Investee company of the shareholder of the Company's controlling shareholder
Shenzhen Zhongxing Development Co., Ltd.	Investee company of the shareholder of the Company's controlling shareholder
Chung Hing (Hong Kong) Development Limited	Company controlled by key management personnel of the Company
Beijing Zhongxing Intelligent Transportation Systems Ltd	Company controlled by key management personnel of the Company
中太數據通訊(深圳)有限公司	Company controlled by key management personnel of the Company
中移鼎訊通信股份有限公司	Associate
Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Company controlled by key management personnel of the Company
深圳市中興新舟成套設備有限公司	Under the same controlling shareholder as the Company
深圳市富德康電子有限公司	Associate

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### VII. RELATIONSHIP WITH CONNECTED PARTIES AND CONNECTED TRANSACTIONS (continued)

#### 5. Major transactions between the Group and related companies during the year were as follow:

(1) Sales of goods to the connected parties:

Item	Names of companies	Six months ended 30 June 2007	Six months ended 30 June 2006
Sales of goods	Shenzhen Zhongxing Information Technology Co., Ltd.	1,994	746
	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	—	75
	Beijing Zhongxingxin Communication Equipment Company, Limited	—	37
	Beijing Zhongxing Yuanjing Technology Co., Ltd	—	759
	ZTE IC Design Co., Ltd	2,475	10,049
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	833	4,483
	中移鼎訊通信股份有限公司	—	359
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	85	—
	中興軟件技術(南昌)有限公司	116	—
	Shenzhen Zhongxing Xinyu FPC Company, Limited	245	—
	Beijing Zhongxing Intelligent Transportation Systems Ltd	2,543	6,694
	Shenzhen Smart Electronics Company, Limited	269	—
	Shenzhen Zhongxing Development Co., Ltd.	847	—

(2) Purchase of raw materials from connected parties:

Item	Names of companies	Six months ended 30 June 2007	Six months ended 30 June 2006
Purchase of raw materials	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	207,958	149,958
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	52,139	38,480
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	56,100	34,045
	Shenzhen Zhongxing Information Technology Co., Ltd.	6,280	4,244
	Xi'an Microelectronics Technology Research Institute	3,159	337
	Shenzhen Zhongxing Xinyu FPC Company, Limited	6,116	12,428
	Beijing Zhongxingxin Communication Equipment Company, Limited	—	178
	Shenzhen Gaodonghua Communication Technology Co., Ltd.	—	677
	Chung Hing (Hong Kong) Development Limited	—	251
	ZTE IC Design Co., Ltd	40,618	11,215
	Wuxi KaiEr Technology Company, Limited	15,647	—
	Shenzhen Decang Technology Company Limited	8,109	5,713
	中興軟件技術(南昌)有限公司	1,503	—
	深圳市聚飛光電有限公司	10,763	—
	Mobi Antenna Technologies (Shenzhen) Co., Ltd.	128,666	—
	Shenzhen Smart Electronics Company, Limited	465	444

Notes:

- (i) Sales of goods to connected parties: Goods were sold to connected parties by the Group at market price during the period.
- (ii) Purchase of raw materials from connected parties: Raw materials were purchased by the Group from connected parties at market price during the period.

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## VII. RELATIONSHIP WITH CONNECTED PARTIES AND CONNECTED TRANSACTIONS (continued)

## 6. Amounts due from/to connected parties

Item	Name of connected parties	Closing balance	Opening balance
Trade payables	Shenzhen Smart Electronics Company, Limited	108	73
	深圳市中興新舟成套設備有限公司	—	9,833
	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	82,027	147,860
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	35,779	34,365
	Shenzhen Zhongxing Information Technology Co., Ltd.	—	2,133
	Shenzhen Zhongxing Xinyu FPC Company, Limited	2,348	2,241
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	12,076	21,879
	Shenzhen Gaodonghua Communication Technology Co., Ltd.	175	792
	Beijing Zhongxingxin Communication Equipment Company, Limited	—	301
	Chung Hing (Hong Kong) Development Limited	72	66
	ZTE IC Design Co., Ltd	4,642	9,348
	Shenzhen Decang Technology Company Limited	3,160	1,487
	Wuxi KaiEr Technology Company, Limited	2,810	6,768
	Mobi Antenna Technologies (Shenzhen) Co., Ltd.	58,030	—
	深圳市富德康電子有限公司	3,069	—
	深圳市聚飛光電有限公司	625	—
Other payables	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	313	361
	Lishan Microelectronics Corporation	65	65
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	12	12
	吉林省郵電器材總公司	65	65
	Shenzhen Zhongxing Information Technology Co., Ltd.	48	48
	Shenzhen Smart Electronics Company, Limited	300	300
湖南南天集團有限公司	130	130	
Bills payable	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	29,880	58
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	35,254	—
	Shenzhen Smart Electronics Company, Limited	127	—
	ZTE IC Design Co., Ltd	14,063	1,660
	Shenzhen Decang Technology Company Limited	2,815	2,772
	Mobi Antenna Technologies (Shenzhen) Co., Ltd.	60,603	—
	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	99,047	—
Prepayments	ZTE IC Design Co., Ltd	182	182
	中大數據通訊(深圳)有限公司	75	75
	Shenzhen Zhongxing Information Technology Co., Ltd.	3,608	3,608
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	37	—
Other receivables	Wuxi KaiEr Technology Company, Limited	6	—

## NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

(All amounts in RMB'000 unless otherwise stated)

(English translation for reference only)

### VII. RELATIONSHIP WITH CONNECTED PARTIES AND CONNECTED TRANSACTIONS (continued)

#### 6. Amounts due from/to connected parties (continued)

Item	Name of connected parties	Closing balance	Opening balance	
Trade receivables	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	1,113	2,074	
	中移鼎訊通信股份有限公司	5,154	—	
	Shenzhen Zhongxing Information Technology Co., Ltd.	1,778	146	
	Beijing Zhongxingxin Communication Equipment Company, Limited	—	1,560	
	Xi'an Microelectronics Technology Research Institute	9	9	
	Shenzhen Zhongxing Development Co., Ltd.	—	32	
	ZTE IC Design Co., Ltd	2,240	2,459	
	中興軟件技術(南昌)有限公司	8,507	7,314	
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	54	362	
	深圳市中興新舟成套設備有限公司	129	129	
	Shenzhen Decang Technology Company Limited	2	410	
	Advances from customers	Shenzhen Weigao Semiconductor Company, Limited	—	4,644
		中興軟件技術(南昌)有限公司	1,000	—
中移鼎訊通信股份有限公司		963	—	
Dividends receivable	Shenzhen Zhongxing Xinyu FPC Company, Limited	1,136	1,136	

Amounts due from/to connected parties were interest-free, unsecured and had no fixed terms of repayment.

### VIII. CONTINGENT EVENTS

- In November 2005, a court action was commenced by a customer against a subsidiary of the Group and the Company in respect of a claim of RMB71 million in aggregate, comprising return of advance payment of RMB35 million, and accrued interests and compensation for losses of RMB36 million. As at the date of approval of these financial statements, the case was pending response from the Supreme People's Court to a written request for opinion after the trial committee failed to reach consensus following two hearings in the first trial in the court proceedings. As the case is still under trial, it is difficult at this stage to predict the final outcome with any reasonable certainty. Meanwhile, RMB31 million of the Group's cash had been frozen and RMB117.2 million worth of properties situated in Nanjing had been pledged as a means by which the Court guarantee the interests of the plaintiff. The Group however had not paid any compensation in connection with this litigation. In the opinion of the directors, based on legal advice from the Company's lawyer engaged in this action, the aforesaid litigation and guarantee would not have any material adverse impact on the Group's financial position and operating results for the current period.
- On 16 December 2005, an arbitration was commenced by a supplier against the Company in respect of claims for breach of contract and infringement of intellectual property rights in the amount of approximately USD36,450,000 (equivalent to approximately RMB294.2 million) in aggregate. As at the approval date of these financial statements, preliminary negotiations had been conducted following submission of evidence by lawyers of both parties to the arbitration authorities, but the arbitration tribunal had not officially commenced and no arbitral award had been made on the claims. It is difficult at this stage to predict the final outcome with any reasonable certainty. The Group had not paid any compensation in connection with this arbitration. In the opinion of the directors, based on legal advice from the Company's lawyer engaged in the action, the aforesaid case would not have any material adverse impact on the Group's financial position and operating results for the current period.

## NOTES TO FINANCIAL STATEMENTS

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

### VIII. CONTINGENT EVENTS (continued)

3. On 18 August 2005, the Company received a notice of arbitration from a consultant in respect of a claim for consultancy fee, agency fee and compensation fee for undue delay in honouring payment which totaled approximately USD1,714,000 (equivalent to approximately RMB13,384,000). Subsequently, the consultant raised their claim to approximately USD2,143,000 (equivalent to approximately RMB16,734,000). As at the approval date of these financial statements, the Terms of Reference submitted by the two parties to the case had yet to receive approval from the arbitration court of the International Chamber of Commerce and the arbitration tribunal had not officially commenced and no arbitral award had been made. It is difficult at this stage to predict the final outcome with any reasonable certainty. The Group had not paid any compensation in connection with this arbitration. In the opinion of the directors, based on legal advice from the Company's lawyer engaged in the action, the aforesaid case would not have any material adverse impact on the Group's financial position and operating results for the current period.
4. During the mid-2005, ZTE Pakistan private Limited, the subsidiary of the Group in Pakistan (the "Pakistanis Subsidiary") commenced a defence action against an administrative penalty notice issued by the Rawalpindi Collectorate of Customs demanding additional custom duties of approximately Rs.177 million (equivalent to approximately RMB23.9 million), which was subsequently raised to approximately Rs.240 million (equivalent to approximately RMB31.2 million) and a penalty of approximately Rs.2.4 billion (equivalent to approximately RMB324 million) for an alleged misdeclaration of imported goods. The Central Board of Revenue, the immediate authority governing the Rawalpindi Collectorate of Customs had ordered the suspension of such payment demands and referred all disputes between the parties to the Committee for Alternate Dispute Resolution Islamabad for resolution. On 5 September 2005, the Committee furnished a final report to the Central Board of Revenue stating that the Pakistanis Subsidiary had fulfilled properly all customs declaration procedures in respect of the imported goods and the administrative penalties should be withdrawn by the Rawalpindi Collectorate of Customs. The Rawalpindi Collectorate of Customs however did not concur with the opinion. Following negotiations between the Group and the Rawalpindi Collectorate held in June 2007, the Rawalpindi Collectorate agreed that the fine might be exempted if the Pakistanis Subsidiary made a remedial tax payment of Rs.177 million (approximately RMB22 million) before 30 June 2007. Such payment had been made by the Pakistanis Subsidiary before 30 June 2007. Of the amount paid, approximately Rs.67 million (approximately RMB8 million) was subject to refund and the balance of approximately Rs.110 million (approximately RMB14 million) had been charged to the current tax amounts of the Pakistanis Subsidiary for June. The net effect on current profit was approximately RMB10 million after offsetting the previous provision of approximately RMB4 million. Subsequently, the Rawalpindi Collectorate issued a notice to the Pakistanis Subsidiary demanding the payment of an addition tax amount of approximately Rs.62 million (approximately RMB8 million). Based on the legal opinion on the dispute furnished by the lawyer engaged by the Company, the Directors were of the view that the Group had sufficient documentary evidence to defend itself against such payment. This matter would not have any material adverse impact on the Group's current financial position and operating results.
5. In August 2006, a customer requested an arbitration for a claim of Rs.762,982,000 (equivalent to approximately RMB97,980,000) against the Company for breach of contract. As at the approval date of these financial statements, the arbitration body had not made any decision regarding the claim of default and the compensation demanded. Meanwhile, the Company had launched a counter claim against the customer for breach of contract. It is difficult at this stage to predict the final outcome with any reasonable certainty. The Group had not paid any compensation in connection with this arbitration. In the opinion of the directors, based on legal advice from the Company's lawyer engaged in the action, the aforesaid case would not have any material adverse impact on the Group's financial position and operating results for the current period.
6. As at 30 June 2007, the Group had outstanding bank guarantees amounting to RMB4,697,161,000.

### IX. COMMITMENT

	<b>30 June 2007</b>	31 December 2006
Capital commitments contracted but not provided for	<b>555,853</b>	795,991
Lease commitments	<b>364,263</b>	201,371
Investment commitments	<b>24,406</b>	80,231



## NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

(All amounts in RMB'000 unless otherwise stated)

(English translation for reference only)

### **X. POST BALANCE SHEET EVENT**

As at the date of approval of the financial statements, the Group had no discloseable post balance sheet date events.

### **XI. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were resolved and approved by the Board of Directors of the Company on 16 August 2007.

## SUPPLEMENTARY INFORMATION

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

## I. FULLY DILUTED AND WEIGHTED AVERAGE NET RETURN ON ASSETS AND EARNINGS PER SHARE

Item	Profit for the period	Return on net assets		Earnings per share (RMB)	
		Fully diluted	Weighted average	Basic	Diluted
Operating profit	284,318	2.53%	2.57%	0.30	0.30
Net profit attributable to equity holders of the parent	459,840	4.10%	4.15%	0.48	0.48
Net profit after extraordinary items attributable to equity holders of the parent	485,726	4.33%	4.39%	0.51	0.51

Net profit after extraordinary items attributable to holders of ordinary shares of the Company is as follows:

	Six month ended 30 June 2007
Net profit attributable to equity holders of the parent	459,840
Less (add): Non-operating income	17,757
Non-operating expenses	(48,211)
Effect of extraordinary items on income tax	4,568
Net profit after extraordinary items attributable to equity holders of the parent	485,726

The Company recognised extraordinary items in accordance with the Rule No.1 of Questions and Answers Information Disclosure and Report Compilation by Companies with Public Listed Securities under Kuai Ji Zi [2007] No.9 promulgated by the China Securities Regulatory Commission.

## SUPPLEMENTARY INFORMATION

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

### II. STATEMENT OF CHANGE IN OWNERS' EQUITY

		Six months ended 30 June 2007						
		Attributable to equity holders of the parent						
		Share capital	Capital surplus	Surplus reserve	Retained profit	Exchange differences	Minority interests	Total equity
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
I.	Balance at prior year end	959,522	5,509,666	1,331,059	2,996,579	(32,880)	561,892	11,325,838
	Add: Changes in accounting policies	—	—	—	—	—	—	—
	Correction of errors in previous periods	—	—	—	—	—	—	—
II.	Balance at the beginning of the current year	959,522	5,509,666	1,331,059	2,996,579	(32,880)	561,892	11,325,838
III.	Change in the current year	—	148,834	—	315,912	(8,265)	101,534	558,015
	(I) Net profit	—	—	—	459,840	—	95,567	555,407
	(II) Profit and loss directly dealt with in shareholders' equity	—	—	—	—	(8,265)	—	(8,265)
	1. Effect of changes in owners' equity in investees under equity method	—	—	—	—	—	—	—
	2. Others	—	—	—	—	(8,265)	—	(8,265)
	Sub-total of (I) and (II)	—	—	—	459,840	(8,265)	95,567	547,142
	(III) Shareholders' contributions and decrease in capital	—	148,834	—	—	—	9,565	158,399
	Amount of share-based payments accounted for as shareholders' equity	—	148,834	—	—	—	—	148,834
	Capital contributions by minority shareholders	—	—	—	—	—	9,565	9,565
	(IV) Profit distribution	—	—	—	(143,928)	—	(3,598)	(147,526)
	1. Transfer to surplus reserves	—	—	—	—	—	—	—
	2. Distribution to shareholders	—	—	—	(143,928)	—	(3,598)	(147,526)
	(V) Shareholders' equity interest transfer	—	—	—	—	—	—	—
IV.	Balance at the end of the period	959,522	5,658,500	1,331,059	3,312,491	(41,145)	663,426	11,883,853

## SUPPLEMENTARY INFORMATION

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

		Six months ended 30 June 2006						
		Attributable to equity holders of the parent						
		Share capital	Capital reserve	Surplus reserve	Retained profit	Exchange differences	Minority interests	Total equity
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
I.	Balance at prior year end	959,522	5,506,424	1,264,060	2,536,487	(15,981)	470,729	10,721,241
	Add: Changes in accounting policies	—	—	—	—	—	—	—
	Correction of errors in previous periods	—	—	—	—	—	—	—
II.	Balance at the beginning of the current year	959,522	5,506,424	1,264,060	2,536,487	(15,981)	470,729	10,721,241
III.	Change in the current year	—	759	—	107,178	(7,778)	85,055	185,214
(I)	Net profit	—	—	—	347,058	—	54,240	401,298
(II)	Profit and loss directly dealt with in shareholders' equity	—	759	—	—	(7,778)	—	(7,019)
	1. Effect of changes in owners' equity in investees under equity method	—	—	—	—	—	—	—
	2. Others	—	759	—	—	(7,778)	—	(7,019)
	Sub-total of (I) and (II)	—	759	—	347,058	(7,778)	54,240	394,279
(III)	Shareholders' contributions and decrease in capital	—	—	—	—	—	32,265	32,265
	Amount of share-based payments accounted for as shareholders' equity	—	—	—	—	—	—	—
	Capital contributions by minority shareholders	—	—	—	—	—	32,265	32,265
(IV)	Profit distribution	—	—	—	(239,880)	—	(1,450)	(241,330)
	1. Transfer to surplus reserves	—	—	—	—	—	—	—
	2. Distribution to shareholders	—	—	—	(239,880)	—	(1,450)	(241,330)
(V)	Shareholders' equity interest transfer	—	—	—	—	—	—	—
IV.	Balance at the end of the period	959,522	5,507,183	1,264,060	2,643,665	(23,759)	555,784	10,906,455

\* Figures presented in the 2007 statements are unaudited. Figures presented in the 2006 interim financial statements have been adjusted in accordance with the new accounting standards based on unaudited data.

## SUPPLEMENTARY INFORMATION

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

### III. BREAKDOWN OF PROVISION FOR ASSET IMPAIRMENT

Item	Opening balance	Addition during the period	Reduction during the period	Closing balance
I. Provision for bad debt	1,447,601	211,372	24,336	1,634,637
Including: trade receivables	556,857	79,804	24,336	612,325
Other receivables (Note 1)	890,744	131,568	—	1,022,312
II. Provision for impairment of inventories	448,662	92,856	26,323	515,195
Including: raw materials	131,171	40,609	—	171,780
Materials under sub-contract processing	—	1,688	—	1,688
Work in progress	8,577	7,438	—	16,015
Finished goods	68,197	—	26,323	41,874
Exhibition and trial products (Note 2)	240,717	43,121	—	283,838
III. Provision for impairment of long-term investments	—	—	—	—
Including: long-term equity investments	—	—	—	—
IV. Provision for impairment of fixed assets	87,002	—	—	87,002
Including: Buildings	7,708	—	—	7,708
Machinery equipment	1,475	—	—	1,475
Electronic equipment	77,819	—	—	77,819
V. Provision for impairment of intangible assets	26,956	—	—	26,956
Including: Land use rights	6,322	—	—	6,322
Software	12,884	—	—	12,884
Operating concession	7,750	—	—	7,750

Note 1: The change in impairment provision for the period is charged to selling and distribution expenses, general and administrative expenses and research and development costs, respectively based on the substance of the specific businesses.

Note 2: The change in impairment provision for the period is charged to cost of sales based on the substance of the specific businesses.

## SUPPLEMENTARY INFORMATION

(All amounts in RMB'000 unless otherwise stated)  
(English translation for reference only)**IV. RECONCILIATION OF DIFFERENCES IN NET PROFIT**

<b>Item</b>	<b>Amount</b>
Net profit for the six months ended 30 June 2006 (under previous accounting standards)	373,468
Add: Aggregate effect of retroactive adjustments	(26,410)
Including: Cost of sales	(28,489)
Selling and distribution expenses	—
General and administrative expenses	—
Research and development costs	(12,500)
Gains from change in fair value	—
Investment gains	—
Income tax	3,217
Other	11,362
Less: Effect of retroactive adjustments on minority interests	—
Net profit for the six months ended 30 June 2006 attributable to equity holders of the parent (new accounting standards)	347,058
Pro-forma data assuming full implementation of new accounting standards	
I. Add: Aggregate effect of other items	—
Including: development expenses	—
Gain/loss from debt restructuring	—
Gain/loss from swap of non-monetary assets	—
Investment gains	—
Income tax	—
Others	—
II. Add: Effect of retroactive adjustments on minority interests	—
III. Add: Minority interests presented in original interim financial statements	54,240
Pro-forma net profit for the six months ended 30 June 2006	401,298

**V. ADJUSTMENTS TO ITEMS IN INCOME STATEMENT**

(2006.1.1–6.30)

<b>Item</b>	<b>Before adjustments</b>	<b>After adjustments</b>
Cost of sales	6,826,915	6,811,594
Selling and distribution expenses	1,567,996	1,567,996
General and administrative expenses	509,047	689,263
Research and development costs	1,242,974	1,255,474
Gains from change in fair value	—	—
Investment gains	694	694
Net profit	373,468	347,058

# CONSOLIDATED INCOME STATEMENT

(Prepared under HKFRSs)  
Six months ended 30 June 2007

		<b>Six months ended 30 June</b>	
		<b>2007</b>	2006
		<b>(Unaudited)</b>	(Unaudited)
			(Restated)
		<b>RMB'000</b>	RMB'000
	Note		
<b>REVENUE</b>	4	<b>15,231,932</b>	10,588,900
Cost of sales		<b>(9,842,007)</b>	(6,894,766)
Gross profit		<b>5,389,925</b>	3,694,134
Other income and gains	4	<b>411,715</b>	253,346
Research and development costs		<b>(1,521,489)</b>	(1,255,474)
Selling and distribution costs		<b>(2,484,303)</b>	(1,597,722)
Administrative expenses		<b>(912,470)</b>	(651,927)
Other expenses		<b>(154,357)</b>	64,241
Finance costs	6	<b>(119,877)</b>	(53,977)
Share of profits and losses of:			
Jointly-controlled entities		<b>649</b>	—
Associates		<b>1,058</b>	694
<b>PROFIT BEFORE TAX</b>	5	<b>610,851</b>	453,315
Tax	7	<b>(55,444)</b>	(52,017)
<b>PROFIT FOR THE PERIOD</b>		<b>555,407</b>	401,298
<b>Attributable to:</b>			
Equity holders of the parent		<b>459,840</b>	347,058
Minority interests		<b>95,567</b>	54,240
		<b>555,407</b>	401,298
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
Basic	9	<b>RMB0.48</b>	RMB0.36
Diluted		<b>RMB0.46</b>	N/A

## CONSOLIDATED BALANCE SHEET

(Prepared under HKFRSs)  
30 June 2007

		<b>30 June 2007 (Unaudited) RMB'000</b>	31 December 2006 (Audited) RMB'000
	Note		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>3,377,548</b>	3,053,019
Prepaid land premiums/land lease payments		<b>86,438</b>	55,146
Intangible assets		<b>332,853</b>	274,905
Investments in jointly-controlled entities		<b>2,120</b>	5,936
Investments in associates		<b>49,782</b>	51,257
Available-for-sale investments	10	<b>43,488</b>	43,488
Long-term trade receivables	12	<b>328,166</b>	372,703
Factored long-term trade receivables	13	<b>2,234,427</b>	1,399,206
Deferred tax assets		<b>250,000</b>	210,923
Total non-current assets		<b>6,704,822</b>	5,466,583
<b>CURRENT ASSETS</b>			
Prepaid land premiums/land lease payments		<b>2,101</b>	1,449
Inventories		<b>4,200,288</b>	2,481,155
Amount due from customers for contract work	11	<b>9,309,086</b>	5,833,480
Trade and bills receivables	12	<b>8,706,665</b>	6,988,034
Factored trade receivables	13	<b>149,715</b>	152,848
Prepayments, deposits and other receivables		<b>2,331,826</b>	1,497,323
Loan receivables	14	<b>13,466</b>	22,026
Equity investments at fair value through profit or loss		<b>—</b>	33,288
Derivative financial instruments		<b>24,811</b>	—
Pledged bank deposits		<b>117,475</b>	168,997
Cash and cash equivalents		<b>5,489,545</b>	4,142,063
Total current assets		<b>30,344,978</b>	21,320,663
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	15	<b>12,555,135</b>	6,991,665
Amount due to customers for contract work	11	<b>1,557,914</b>	996,275
Other payables and accruals		<b>3,559,123</b>	2,732,572
Interest-bearing bank borrowings		<b>1,644,238</b>	945,726
Bank advances on factored trade receivables		<b>149,715</b>	152,848
Tax payable		<b>265,937</b>	297,913
Dividends payable		<b>198,480</b>	83,941
Total current liabilities		<b>19,930,542</b>	12,200,940
<b>NET CURRENT ASSETS</b>		<b>10,414,436</b>	9,119,723
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>17,119,258</b>	14,586,306



## CONSOLIDATED BALANCE SHEET

(Prepared under HKFRSs)  
30 June 2007

	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Note		
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>17,119,258</b>	14,586,306
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing bank borrowings	2,827,115	1,679,242
Bank advances on factored long-term trade receivables	2,234,427	1,399,206
Financial guarantee contracts	3,689	3,689
Provision for retirement benefits	32,058	32,058
Other long-term payables	138,116	146,274
Total non-current liabilities	<b>5,235,405</b>	3,260,469
Net assets	<b>11,883,853</b>	11,325,837
<b>EQUITY</b>		
<b>Equity attributable to equity holders of the parent</b>		
Issued capital	959,522	959,522
Reserves	10,260,905	9,660,495
Proposed final dividend	—	143,928
	<b>11,220,427</b>	10,763,945
<b>Minority interests</b>	<b>663,426</b>	561,892
<b>Total equity</b>	<b>11,883,853</b>	11,325,837

**Hou Weigui**  
Director

**Yin Yimin**  
Director

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared under HKFRSs)  
Six months ended 30 June 2007

	Attributable to equity holders of the parent									
	Issued capital (Unaudited) RMB'000	Capital reserve (Unaudited) RMB'000	Share incentive 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 2007	959,522	5,507,184	2,480	1,331,059	(32,880)	2,852,652	143,928	10,763,945	561,892	11,325,837
Exchange realignment and other income directly recognised in equity	—	—	—	—	(8,264)	—	—	(8,264)	(3,598)	(11,862)
Profit for the period	—	—	—	—	—	459,840	—	459,840	95,567	555,407
2006 final dividend declared	—	—	—	—	—	—	(143,928)	(143,928)	—	(143,928)
share incentive costs	—	—	148,834	—	—	—	—	148,834	—	148,834
Dividend attributable to minority shareholders	—	—	—	—	—	—	—	—	—	—
Capital contributions by minority shareholders	—	—	—	—	—	—	—	—	9,565	9,565
<b>At 30 June 2007</b>	<b>959,522</b>	<b>5,507,184</b>	<b>151,314</b>	<b>1,331,059</b>	<b>(41,144)</b>	<b>3,312,492</b>	<b>—</b>	<b>11,220,427</b>	<b>663,426</b>	<b>11,883,853</b>
At 1 January 2006	959,522	5,506,424	—	1,264,060	(15,981)	2,296,607	239,880	10,250,512	470,729	10,721,241
Exchange realignments	—	759	—	—	(7,778)	—	—	(7,019)	—	(7,019)
Profit for the period	—	—	—	—	—	347,058	—	347,058	54,240	401,298
2005 final dividend declared	—	—	—	—	—	—	(239,880)	(239,880)	—	(239,880)
Dividend attributable to minority shareholders	—	—	—	—	—	—	—	—	(1,450)	(1,450)
Capital contributions by minority shareholders	—	—	—	—	—	—	—	—	32,265	32,265
<b>At 30 June 2006</b>	<b>959,522</b>	<b>5,507,183</b>	<b>—</b>	<b>1,264,060</b>	<b>(23,759)</b>	<b>2,643,665</b>	<b>—</b>	<b>10,350,671</b>	<b>555,784</b>	<b>10,906,455</b>

## CONSOLIDATED CASH FLOW STATEMENT

(Prepared under HKFRSs)  
Six months ended 30 June 2007

	<b>Six months ended 30 June 2007 (Unaudited) RMB'000</b>	Six months ended 30 June 2006 (Unaudited) RMB'000
Net cash outflow from operating activities	<b>(363,620)</b>	(2,909,650)
Net cash outflow from investing activities	<b>(635,376)</b>	(307,311)
Net cash inflow from financing activities	<b>2,349,667</b>	681,005
	<b>1,350,671</b>	(2,535,956)
Net increase/(decrease) in cash and cash equivalents		
Cash and cash equivalents at beginning of period	<b>4,142,063</b>	5,397,233
Effect of foreign exchange rate changes, net	<b>(3,189)</b>	(8,550)
	<b>5,489,545</b>	2,852,727
Cash and cash equivalents at end of period		
Analysis of balance of cash and cash equivalents:		
Cash and bank balances	<b>4,789,545</b>	2,765,214
Unsecured time deposits with a maturity of less than three months	<b>700,000</b>	87,513
	<b>5,489,545</b>	2,852,727

# NOTES TO FINANCIAL STATEMENTS

(Prepared under HKFRSs)  
30 June 2007

## 1. CORPORATE INFORMATION

ZTE Corporation (the "Company") is a limited liability company incorporated 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 (the "Group") were principally involved in the design, development, manufacture and sale of telecommunications systems equipment and solutions.

In the opinion of the directors, the holding 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. SUMMARY OF MAJOR ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". Except for the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs, which also includes HKASs and Interpretations) which affect the Group and are adopted for the first time for the current period's financial statements, the accounting policies and basis of presentation adopted in the preparation of these condensed consolidated interim financial statements are the same as those adopted in the annual financial statements for the year ended 31 December 2006.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of the above new and revised HKFRSs has had no material impact on the accounting policies for the condensed consolidated interim financial statements of the Group and the calculation methods of the financial statements.

## 3. SEGMENT INFORMATION

Segment information is presented by way of two segments: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating business are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Details of the business segments are as follows:

- (a) The wireless communications segment engages in the provision of systems integration and the sale of equipment for mobile phone network systems, primarily in respect of CDMA, GSM and wireless local access (PHS) systems.
- (b) The wireline switch and access segment engages in the manufacture and sale of wireline, circuit-switches and narrow-band access systems for fixed line phone systems.
- (c) The optical and data communications segment engages in the provision of DSL systems, SDH, WDM systems and softswitch systems, broadband routing switches, wireless access data products and other data communications products.
- (d) The handsets segment engages in the manufacture and sale of CDMA and GSM mobile phone handsets, wireless local access (PHS) handsets and 3G mobile handsets.
- (e) The telecommunications software systems, services and other products segment represented the provision of telecommunications software systems such as operation support systems and the provision of fee-based services.

## NOTES TO FINANCIAL STATEMENTS

(Prepared under HKFRSs)  
30 June 2007

### 3. SEGMENT INFORMATION (continued)

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers.

An analysis of the Group's revenue and profit by business and geographical segments for the six months ended 30 June 2007 and 2006 is as follows:

#### (a) Business segments

	Wireless communications		Wireline switch and access		Optical and data communications		Handsets		Telecommunications software systems, services and other products		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Segment revenue:												
Telecommunications systems contracts	6,801,448	3,513,422	592,150	1,074,977	2,545,361	1,710,492	—	—	991,461	1,199,961	10,930,420	7,498,852
Sale of goods and services	—	—	—	—	—	—	3,592,480	2,134,076	709,032	955,972	4,301,512	3,090,048
<b>Total</b>	<b>6,801,448</b>	<b>3,513,422</b>	<b>592,150</b>	<b>1,074,977</b>	<b>2,545,361</b>	<b>1,710,492</b>	<b>3,592,480</b>	<b>2,134,076</b>	<b>1,700,493</b>	<b>2,155,933</b>	<b>15,231,932</b>	<b>10,588,900</b>
Segment results	2,068,817	940,531	121,797	261,775	394,428	363,092	253,364	149,458	67,216	381,556	2,905,622	2,096,412
Interest and unallocated gain											411,715	253,346
Unallocated expenses											(2,588,316)	(1,843,160)
Finance costs											(119,877)	(53,977)
Share of profit and losses of:												
Jointly-controlled entities											649	—
Associates											1,058	694
Profit before tax											610,851	453,315
Tax											(55,444)	(52,017)
Profit for the period											555,407	401,298

#### (b) Geographical segment

	The PRC		Asia (excluding the PRC)		Africa		Others		Consolidated		
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000	
Segment revenue:											
Telecommunications systems contracts	5,969,210	4,777,866	2,292,233	880,686	1,733,348	1,244,622	935,629	595,678	10,930,420	7,498,852	
Sale of goods and services	1,292,125	1,804,820	1,687,770	886,799	116,845	188,191	1,204,772	210,238	4,301,512	3,090,048	
<b>Total</b>	<b>7,261,335</b>	<b>6,582,686</b>	<b>3,980,003</b>	<b>1,767,485</b>	<b>1,850,193</b>	<b>1,432,813</b>	<b>2,140,401</b>	<b>805,916</b>	<b>15,231,932</b>	<b>10,588,900</b>	

## NOTES TO FINANCIAL STATEMENTS

(Prepared under HKFRSs)  
30 June 2007**4. REVENUE, OTHER INCOME AND GAINS**

Revenue, which is also the Group's turnover, represents the aggregate of attributable contract revenue from telecommunications systems 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 intra-group transactions have been eliminated on consolidation.

An analysis of the Group's revenue is as follows:

	<b>Six months ended 30 June 2007 RMB'000</b>	Six months ended 30 June 2006 RMB'000
<b>Revenue</b>		
Telecommunications systems contracts	<b>10,930,420</b>	7,498,852
Sale of goods and services	<b>4,301,512</b>	3,090,048
	<b>15,231,932</b>	10,588,900
<b>Other income</b>		
Government grants	<b>33,663</b>	11,362
VAT subsidies, exemptions and refunds#	<b>323,324</b>	212,644
Bank interest income	<b>17,757</b>	26,347
Others	<b>2,863</b>	2,993
	<b>377,607</b>	253,346
<b>Gains</b>		
Fair value gains on derivative instruments		
— transactions not qualifying as hedges	<b>24,810</b>	—
Gain on disposal of equity investments at fair value through profit or loss	<b>9,298</b>	—
	<b>34,108</b>	—
	<b>411,715</b>	253,346

# During the six months ended 30 June 2007, Shenzhen Zhongxing Software Company, Limited ("Zhongxing Software") and Nanjing Zhongxing Software Company, Limited, 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%.

**5. PROFIT BEFORE TAX**

The Group's profit before tax is arrived at after charging or (crediting):

	<b>Six months ended 30 June 2007 RMB'000</b>	Six months ended 30 June 2006 RMB'000
Cost of inventories sold	<b>9,622,112</b>	6,826,915
Depreciation	<b>253,327</b>	216,937
Amortisation of intangible assets	<b>26,300</b>	53,192
Provision for bad and doubtful debts*	<b>55,468</b>	(48,643)
Provision for warranties**	<b>(146,000)</b>	19,000
Provision for obsolete inventories and net realisable value**	<b>66,533</b>	(14,583)
Loss on disposal of items of property, plant and equipment*	<b>5,683</b>	3,765
Share incentive costs	<b>148,834</b>	—

## NOTES TO FINANCIAL STATEMENTS

(Prepared under HKFRSs)  
30 June 2007

### 5. PROFIT BEFORE TAX (continued)

\* Provision for bad and doubtful debts and loss on disposal of items of property, plant and equipment have been charged to the condensed consolidated income statement under "Other expenses".

\*\* Provision for warranties and provision for obsolete inventories and net realisable value have been charged to the condensed consolidated income statement under "Cost of sales".

### 6. FINANCE COSTS

	<b>Six months ended 30 June 2007 RMB'000</b>	Six months ended 30 June 2006 RMB'000
Interest on bank loans wholly repayable within five years	<b>60,648</b>	22,240
Finance costs on trade receivables factored and bills discounted	<b>59,229</b>	31,737
	<b>119,877</b>	53,977

### 7. TAX

	<b>Six months ended 30 June 2007 RMB'000</b>	Six months ended 30 June 2006 RMB'000
Group:		
Current — Mainland China	<b>39,242</b>	50,091
Current — Overseas	<b>55,279</b>	5,143
Deferred tax	<b>(39,077)</b>	(3,217)
Total tax charge for the period	<b>55,444</b>	52,017

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable 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.

Under the relevant PRC income tax law, except for certain preferential treatment available to the Company and its subsidiaries, the Group's entities established in the PRC are subject to corporate income tax at a rate of 33% on their taxable income.

The Company and its subsidiaries that are registered and operating in the Shenzhen Special Economic Zone of the PRC are entitled to a preferential income tax rate of 15%.

As a designated software enterprise, Zhongxing Software, a major subsidiary of the Company 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. The corporate income tax rate applicable to Zhongxing Software was 7.5% during the current year.

ZTE Mobile Tech Co., Ltd ("ZTE 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. ZTE Mobile is entitled to a corporate income tax rate of 7.5%.

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Yan Jian Mian (2005) No. 004) issued by the Shenzhen State Tax Bureau, it was agreed that ZTE Microelectronics Technology Co. Ltd., as an enterprise, was 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. The current year was its fourth profitable year and the company was subject to a reduced enterprise income tax of 7.5%.

## NOTES TO FINANCIAL STATEMENTS

(Prepared under HKFRSs)  
30 June 2007

### 7. TAX (continued)

Wuxi Zhongxing Optoelectronics Technologies Company, Limited was registered at Wuxi State's High-tech Industrial Development Zone and was subject to an enterprise income tax rate of 15%.

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Nan Jian Mian (2005) No. 0098) issued by the Nanshan State Tax Bureau in Shenzhen, Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited, as a SEZ enterprise engaged in the servicing industry, was entitled to enterprise income tax exemption in the first profitable year and a 50% reduction of enterprise income tax in the second and third years. As the company had yet to record a profitable year, it was exempted from enterprise income tax.

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Nan Jian Mian (2004) No. 0372) issued by the Nanshan State Tax Bureau in Shenzhen, ZTE Integration Telecom Ltd, as a manufacturing enterprise, was 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 it was the third profitable year for the company, it was exempted from enterprise income tax.

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Nan Zi (2004) No. 0002) issued by the Nanshan State Tax Bureau in Shenzhen, it was agreed that Shenzhen Lead Communication Equipment Company, Limited, as a manufacturing enterprise, was 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. The current year was the fifth profitable year. Hence, the company was subject to a reduced enterprise income tax rate of 7.5%.

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Nan Zi (2004) No. 0381) issued by the Nanshan State Tax Bureau in Shenzhen, it was agreed that Shenzhen Ruide Electronic Industrial Company, Limited, as a manufacturing enterprise, was 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. The current year was the fourth profitable year and the company was subject to a reduced enterprise income tax rate of 7.5%.

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Nan Zi (2004) No. 0036) issued by the Nanshan State Tax Bureau in Shenzhen, it was agreed that Shenzhen Kangquan Electromechanical Company, Limited, as a manufacturing enterprise, was 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. The current year was the fourth profitable year and the company was subject to a reduced enterprise income tax rate of 7.5%.

Pursuant to the Document Shen Guo Shui Nan Jian Mian (2005) No. 0217 issued by the Nanshan State Tax Bureau in Shenzhen, Shenzhen Zhongxing Liwei Technology Company, Limited was 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 the current year was the third profitable year and the company was subject to a reduced enterprise income tax rate of 7.5%.

Pursuant to the Document Shen Guo Shui Nan Jian Mian (2006) No. 0002 issued by the Nanshan State Tax Bureau in Shenzhen, Shenzhen Zhongxing Special Equipment Company, Limited was 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 the current year was the third profitable year and the company was subject to a reduced enterprise income tax rate of 7.5%.

### 8. DIVIDEND

The Directors do not recommend any payment of interim dividend for the six months ended 30 June 2007 (2006: nil).

### 9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent of RMB459,840,000 (2006: RMB347,058,000) and the weighted average number of 959,521,650 (2006: 959,521,650) ordinary shares in issue during the period.



## NOTES TO FINANCIAL STATEMENTS

(Prepared under HKFRSs)  
30 June 2007

### 9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of RMB459,840,000 (2006: RMB347,058,000) and the weighted average number of 959,521,650 (2006: 959,521,650) shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of 47,980,000 shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential shares into shares.

Diluted earnings per share amounts for the period ended 30 June 2006 have not been presented as the Company did not have any potentially dilutive ordinary shares during that period.

### 10. AVAILABLE-FOR-SALE INVESTMENTS

The fair values of these unlisted available-for-sale equity investments have been estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the condensed consolidated balance sheet, and the related changes in fair values, which are recognised in the condensed consolidated income statement, are reasonable, and that they were the most appropriate values at the balance sheet date.

### 11. TELECOMMUNICATIONS SYSTEMS CONTRACTS

	<b>30 June 2007</b>	31 December 2006
Amount due from customers for contract work	<b>9,309,086</b>	5,833,480
Amount due to customers for contract work	<b>(1,557,914)</b>	(996,275)
	<b>7,751,172</b>	4,837,205
Contract costs incurred plus recognised profits less recognised losses to date	<b>25,815,363</b>	21,619,372
Less: progress billings	<b>(18,064,191)</b>	(16,782,167)
	<b>7,751,172</b>	4,837,205

### 12. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES

Progress payment for telecommunications systems 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 two years depending on customer's 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 minimize 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.

## NOTES TO FINANCIAL STATEMENTS

(Prepared under HKFRSs)  
30 June 2007**12. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES** (continued)

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:

	<b>30 June 2007 RMB'000</b>	31 December 2006 RMB'000
Within 6 months	<b>7,113,433</b>	6,242,120
7 to 12 months	<b>995,330</b>	650,526
1 to 2 years	<b>845,310</b>	448,583
2 to 3 years	<b>66,486</b>	13,125
Over 3 years	<b>14,272</b>	6,383
	<b>9,034,831</b>	7,360,737
Current portion of trade and bills receivables	<b>(8,706,665)</b>	(6,988,034)
Long-term portion	<b>328,166</b>	372,703

The balances due from the ultimate holding company, jointly-controlled entities, associates and related companies included in the above are as follows:

	<b>30 June 2007 RMB'000</b>	31 December 2006 RMB'000
Ultimate holding company	<b>1,113</b>	2,074
Jointly-controlled entities	<b>—</b>	8,874
Associates	<b>16,741</b>	2,869
Related companies	<b>1,970</b>	678
	<b>19,824</b>	14,495

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.

**13. FACTORED TRADE RECEIVABLES/FACTORED LONG-TERM TRADE RECEIVABLES**

At 30 June 2007, the Company and a subsidiary of the Group factored trade receivables of RMB2,384,142,000 to banks on a without-recourse basis for cash. As the Company and the subsidiary of the Group still retained the risks and rewards associated with the delay in payment by the customers, the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled. Accordingly, bank advances from the factoring of the Group's trade receivables have been accounted for as liabilities in the condensed consolidated balance sheet.

**14. LOANS RECEIVABLE**

A loan receivable of RMB13,466,000 was granted to a customer by the Group. The balance is unsecured, interest-free and is repayable in September 2007.

The balance is measured at amortised cost in accordance with the valuation technique using the effective interest method. The directors believe that the carrying amount resulting from the valuation technique approximates to its fair value, which is reasonable and is the most appropriate value at the balance sheet date.

## NOTES TO FINANCIAL STATEMENTS

(Prepared under HKFRSs)  
30 June 2007

### 15. TRADE AND BILLS PAYABLE

An aged analysis of the trade and bills payable as at the balance sheet date, based on the invoice date, is as follows:

	<b>30 June 2007 RMB'000</b>	31 December 2006 RMB'000
Within 6 months	<b>12,363,734</b>	6,816,521
7 to 12 months	<b>76,968</b>	81,489
1 to 2 years	<b>72,155</b>	47,855
2 to 3 years	<b>17,669</b>	14,612
Over 3 years	<b>24,609</b>	31,188
	<b>12,555,135</b>	6,991,665

The balances due to the ultimate holding company, related companies, associates and jointly-controlled entities included in the above are as follows:

	<b>30 June 2007 RMB'000</b>	31 December 2006 RMB'000
Ultimate holding company	<b>181,074</b>	147,860
Related companies	<b>236,852</b>	71,367
Associates	<b>28,784</b>	22,108
Jointly-controlled entities	<b>180</b>	301
	<b>446,890</b>	241,636

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.

### 16. CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities of the Group not provided for in the condensed interim financial statements were as follows:

	<b>30 June 2007 RMB'000</b>	31 December 2006 RMB'000
Factored trade receivables	<b>107,181</b>	107,181
Guarantees given to banks in respect of performance bonds	<b>4,697,161</b>	5,200,588
	<b>4,804,342</b>	5,307,769

## NOTES TO FINANCIAL STATEMENTS

(Prepared under HKFRSs)  
30 June 2007

### 16. CONTINGENT LIABILITIES (continued)

- (b) In November 2005, a court action was commenced by a customer against a subsidiary of the Group and the Company in respect of a claim of RMB71 million in aggregate, comprising return of advance payment of RMB35 million, and accrued interests and compensation for losses of RMB36 million. As at the date of approval of these financial statements, the case was pending response from the Supreme People's Court to a written request for opinion after the trial committee failed to reach consensus following two hearings in the first trial in the court proceedings. As the case is still under trial, it is difficult at this stage to predict the final outcome with any reasonable certainty. Meanwhile, RMB31 million of the Group's cash had been frozen and RMB117.2 million worth of properties situated in Nanjing had been pledged as a means by which the Court guarantee the interests of the plaintiff. The Group however had not paid any compensation in connection with this litigation. In the opinion of the directors, based on legal advice from the Company's lawyer engaged in this action, the aforesaid litigation and guarantee would not have any material adverse impact on the Group's financial position and operating results for the current period.
- (c) On 16 December 2005, an arbitration was commenced by a supplier against the Company in respect of claims for breach of contract and infringement of intellectual property rights in the amount of approximately USD36,450,000 (equivalent to approximately RMB294.2 million) in aggregate. As at the approval date of these financial statements, preliminary negotiations had been conducted following submission of evidence by lawyers of both parties to the arbitration authorities, but the arbitration tribunal had not officially commenced and no arbitral award had been made on the claims. It is difficult at this stage to predict the final outcome with any reasonable certainty. The Group had not paid any compensation in connection with this arbitration. In the opinion of the directors, based on legal advice from the Company's lawyer engaged in the action, the aforesaid case would not have any material adverse impact on the Group's financial position and operating results for the current period.
- (d) On 18 August 2005, the Company received a notice of arbitration from a consultant in respect of a claim for consultancy fee, agency fee and compensation fee for undue delay in honouring payment which totaled approximately USD1,714,000 (equivalent to approximately RMB13,384,000). Subsequently, the consultant raised their claim to approximately USD2,143,000 (equivalent to approximately RMB16,734,000). As at the approval date of these financial statements, the Terms of Reference submitted by the two parties to the case had yet to receive approval from the arbitration court of the International Chamber of Commerce and the arbitration tribunal had not officially commenced and no arbitral award had been made. It is difficult at this stage to predict the final outcome with any reasonable certainty. The Group had not paid any compensation in connection with this arbitration. In the opinion of the directors, based on legal advice from the Company's lawyer engaged in the action, the aforesaid case would not have any material adverse impact on the Group's financial position and operating results for the current period.
- (e) During the mid-2005, ZTE Pakistan private Limited, the subsidiary of the Group in Pakistan (the "Pakistanis Subsidiary") commenced a defence action against an administrative penalty notice issued by the Rawalpindi Collectorate of Customs demanding additional custom duties of approximately Rs.177 million (equivalent to approximately RMB23.9 million), which was subsequently raised to approximately Rs.240 million (equivalent to approximately RMB31.2 million) and a penalty of approximately Rs.2.4 billion (equivalent to approximately RMB324 million) for an alleged misdeclaration of imported goods. The Central Board of Revenue, the immediate authority governing the Rawalpindi Collectorate of Customs had ordered the suspension of such payment demands and referred all disputes between the parties to the Committee for Alternate Dispute Resolution Islamabad for resolution. On 5 September 2005, the Committee furnished a final report to the Central Board of Revenue stating that the Pakistanis Subsidiary had fulfilled properly all customs declaration procedures in respect of the imported goods and the administrative penalties should be withdrawn by the Rawalpindi Collectorate of Customs. The Rawalpindi Collectorate of Customs however did not concur with the opinion. Following negotiations between the Group and the Rawalpindi Collectorate held in June 2007, the Rawalpindi Collectorate agreed that the fine might be exempted if the Pakistanis Subsidiary made a remedial tax payment of Rs 177 million (approximately RMB22 million) before 30 June 2007. Such payment had been made by the Pakistanis Subsidiary before 30 June 2007. Of the amount paid, approximately Rs 67 million (approximately RMB8 million) was subject to refund and the balance of approximately Rs 110 million (approximately RMB14 million) had been charged to the current tax amounts of the Pakistanis Subsidiary for June. The net effect on current profit was approximately RMB10 million after offsetting the previous provision of approximately RMB4 million. Subsequently, the Rawalpindi Collectorate issued a notice to the Pakistanis Subsidiary demanding the payment of an addition tax amount of approximately Rs 62 million (approximately RMB8 million). Based on the legal opinion on the dispute furnished by the lawyer engaged by the Company, the Directors were of the view that the Group had sufficient documentary evidence to defend itself against such payment. This matter would not have any material adverse impact on the Group's current financial position and operating results.

## NOTES TO FINANCIAL STATEMENTS

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### 16. CONTINGENT LIABILITIES (continued)

- (f) In August 2006, a customer requested an arbitration for a claim of Rs.762,982,000 (equivalent to approximately RMB97,980,000) against the Company for breach of contract. As at the approval date of these financial statements, the arbitration body had not made any decision regarding the claim of default and the compensation demanded. Meanwhile, the Company had launched a counter claim against the customer for breach of contract. It is difficult at this stage to predict the final outcome with any reasonable certainty. The Group had not paid any compensation in connection with this arbitration. In the opinion of the directors, based on legal advice from the Company's lawyer engaged in the action, the aforesaid case would not have any material adverse impact on the Group's financial position and operating results for the current period.

Save as disclosed above, the Company and the Group had no other significant contingent liabilities as at 30 June 2007.

### 17. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its offices under operating lease arrangements, with leases negotiated for terms ranging from 1 to 12 years.

At 30 June 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>30 June 2007 RMB'000</b>	31 December 2006 RMB'000
Within one year	<b>191,998</b>	118,347
In the second to fifth years, inclusive	<b>171,667</b>	81,470
After five years	<b>598</b>	1,554
	<b>364,263</b>	201,371

### 18. COMMITMENTS

In addition to the operating lease commitments detailed in note 17 above, the Group had the following commitments at the balance sheet date:

#### Capital commitments

	<b>30 June 2007 RMB'000</b>	31 December 2006 RMB'000
Land and buildings:		
Contracted, but not provided for	<b>555,853</b>	795,991
Investment in associates:		
Contracted, but not provided for	<b>24,406</b>	80,331

## NOTES TO FINANCIAL STATEMENTS

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## 19. 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	Note	Six months ended 30 June 2007 RMB'000	Six months ended 30 June 2006 RMB'000
<b>The ultimate holding company</b>	Purchase of raw materials	(a)	<b>207,958</b>	149,958
	Sale of finished goods	(b)	—	75
<b>Shareholders of the ultimate holding company</b>	Purchase of raw materials	(a)	<b>61,579</b>	51,174
	Sale of finished goods	(b)	<b>3,674</b>	5,229
<b>Jointly-controlled entities</b>	Purchase of raw materials	(a)	<b>1,503</b>	208
	Sale of finished goods	(b)	<b>116</b>	37
<b>Associates</b>	Sale of finished goods	(b)	<b>2,744</b>	11,577
	Purchase of raw materials	(a)	<b>75,602</b>	20,326
<b>Entities controlled by key management personnel of the Group</b>	Purchase of raw materials	(a)	<b>128,666</b>	294
	Sale of finished goods	(b)	<b>2,543</b>	6,694
<b>Shareholder of a subsidiary</b>	Corporate guarantee	(c)	<b>314,810</b>	80,000
<b>Fellow subsidiaries</b>	Sale of finished goods	(b)	<b>330</b>	79,866
	Purchase of raw materials	(a)	<b>62,216</b>	—

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 guarantee in respect of bank borrowings was provided by related parties at nil consideration.

## (II) Compensation of key management personnel of the Group

	Six months ended 30 June 2007 RMB'000	Six months ended 30 June 2006 RMB'000
Short-term employee benefits	<b>1,703</b>	1,234

## 20. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 August 2007.

## DOCUMENTS AVAILABLE FOR INSPECTION

1. Text of the 2007 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 2007 prepared in accordance with the PRC GAAP and HKFRSs 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



Chairman

17 August 2007

