中兴通讯股份有限公司
ZTE CORPORATION

stock code 股份代號: 000063.SZ
763.HK

2008
Interim Report
半 年 度 報 告

重要事項

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

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

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

本公司第四屆董事會第十七次會議審議通過本半年度報告，副董事長王宗銀先生因工作原因未能出席本次董事會會議，已書面委托董事長侯為貴先生行使表決權；董事張俊超先生因工作原因未能出席本次董事會會議，已書面委托副董事長謝偉良先生行使表決權；董事殷一民先生因工作原因未能出席本次董事會會議，委託董事長侯為貴先生行使表決權；董事史立榮先生因工作原因未能出席本次董事會會議，委託董事長侯為貴先生行使表決權。

本集團截至2008年6月30日止分別按照中國企業會計準則和香港財務報告準則編製的半年度財務報表未經審計。

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

IMPORTANT

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

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

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

The interim report has been considered and approved at the seventeenth meeting of the fourth session of the Board of Directors of the Company. Mr. Wang Zongyin, Vice Chairman, was unable to attend the meeting due to work related reasons, and has authorised in writing Mr. Hou Weigui, Chairman, to vote on his behalf. Mr. Zhang Junchao, Director, was unable to attend the meeting due to work related reasons, and has authorised in writing Mr. Xie Weiliang, Vice Chairman to vote on his behalf. Mr. Yin Yimin, Director, was unable to attend the meeting due to work related reasons, and has authorised in writing Mr. Hou Weigui, Chairman, to vote on his behalf. Mr. Shi Lirong, Director, was unable to attend the meeting due to work related reasons, and has authorised in writing Mr. Hou Weigui, Chairman, to vote on his behalf.

The interim financial statements of the Group for the six months ended 30 June 2008, prepared in accordance with PRC Accounting Standards for Business Enterprises ("PRC ASBEs") and with Hong Kong Financial Reporting Standards ("HKFRSs") respectively, were unaudited.

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

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DEFINITIONS

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

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

CORPORATE INFORMATION

(II) ACCOUNTING HIGHLIGHTS

1. Major financial data prepared in accordance with PRC ASBEs

Unit: RMB in thousands

Items	End of the current reporting period (30 June 2008)	End of the previous year (31 December 2007)	Increase/decrease as at end of reporting period compared with end of the previous year
Total assets	**45,544,022**	39,229,556	16.10%
Shareholders' equity*	**13,051,591**	12,137,161	7.53%
Net assets per share (before capitalisation of capital reserves)**	**13.60**	12.65	7.51%
Net assets per share (after capitalisation of capital reserves)**	**9.72**	9.04	7.52%

Items	The current reporting period (For the six months ended 30 June 2008)	Corresponding period of the previous year (For the six months ended 30 June 2007)	Increase/decrease for the reporting period compared with corresponding period of the previous year
Operating profit	**462,922**	284,318	62.82%
Total profit	**868,642**	610,851	42.20%
Net profit*	**557,386**	459,840	21.21%
Net profit after extraordinary gains or losses*	**545,707**	485,726	12.35%
Basic earnings per share (before capitalisation of capital reserves)**	**0.58**	0.48	20.83%
Basic earnings per share (after capitalisation of capital reserves)**	**0.41**	0.34	20.59%
Diluted earnings per share (before capitalisation of capital reserves)**	**0.58**	0.48	20.83%
Diluted earnings per share (after capitalisation of capital reserves)**	**0.41**	0.34	20.59%
Return on net assets (%)	**4.27%**	4.10%	Increase by 0.17 percentage points
Net cashflow from operating activities	**-3,151,205**	-160,473	Decrease by 18.64 times
Net cashflow from operating activities per share (before capitalisation of capital reserves)**	**-3.28**	-0.17	Decrease by 18.29 times
Net cashflow from operating activities per share (after capitalisation of capital reserves)**	**-2.35**	-0.12	Decrease by 18.58 times

* The above figures represent interests attributable to the shareholders of the listed company.

** The Company's plan to increase its share capital by way of capitalisation of capital reserves was implemented on 10 July 2008 and the actual number of the Company's total issued share capital was increased from 959,521,650 shares to 1,343,330,310 during the period between 1st January 2008 and the date of publication of this report. The amounts of net assets per share, basic earnings per share, diluted earnings per share and net cashflow from operating activities per share set out above are calculated on the basis of the Company's total issued share capital before and after the capitalisation.

CORPORATE INFORMATION

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

Unit: RMB in thousands

Extraordinary gains or losses items	Amounts
Non-operating income	43,564
Less: Non-operating expenses	29,824
Less: Effect of income tax	2,061
Total	**11,679**

2. Major financial data prepared in accordance with HKFRSs

Items	For the six months ended 30 June 2008	For the six months ended 30 June 2007
Basic earnings per share* (RMB)	**0.41**	0.34
Return on net assets* (%)	**4.27%**	4.10%

Items	As at 30 June 2008	As at 31 December 2007
Net assets per share* (RMB)	**9.72**	9.04

* The above figures represent interests attributable to shareholders of the listed company. Basic earnings per share and net assets per share are calculated on the basis of the Company's total issued share capital after the capitalisation of capital reserves implemented on 10 July 2008, namely 1,343,330,310 shares.

3. The amounts of net profit and shareholders' equity of the Group for and as at the end of the reporting period calculated in accordance with PRC ASBEs are 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 2007)		Increase/decrease (+/-) resulting from changes in the reporting period					Closing balance (30 June 2008)	
	Number	Percentage (%)	Issue of new shares	Bonus issue	Transfer from capital reserve	Others[1]	Sub-total	Number	Percentage (%)
I. Shares subject to lock-up	311,954,732	32.51	–	–	–	(47,964,199)	(47,964,199)	**263,990,533**	**27.51**
1. State-owned shares	–	–	–	–	–	–	–	**–**	**–**
2. State-owned legal person shares	310,982,741	32.41	–	–	–	(47,976,083)	(47,976,083)	**263,006,658**	**27.41**
3. Other domestic shareholders	971,991	0.10	–	–	–	11,884	11,884	**983,875**	**0.10**
Comprising:									
Domestic non stated-owned legal person shares	–	–	–	–	–	–	–	**–**	**–**
Domestic natural person shares (including shares held by senior management)	971,991	0.10	–	–	–	11,884	11,884	**983,875**	**0.10**
4. Foreign shares	–	–	–	–	–	–	–	**–**	**–**
Comprising:									
Foreign legal person shares	–	–	–	–	–	–	–	**–**	**–**
Foreign natural person shares	–	–	–	–	–	–	–	**–**	**–**
II. Shares not subject to lock-up	647,566,918	67.49	–	–	–	47,964,199	47,964,199	**695,531,117**	**72.49**
1. RMB ordinary shares	487,415,878	50.80	–	–	–	47,964,199	47,964,199	**535,380,077**	**55.80**
2. Domestic-listed foreign shares	–	–	–	–	–	–	–	**–**	**–**
3. Overseas-listed foreign shares (H Shares)	160,151,040	16.69	–	–	–	–	–	**160,151,040**	**16.69**
4. Others	–	–	–	–	–	–	–		
III. Total number of shares	959,521,650	100	–	–	–	–	–	**959,521,650**	**100**

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

Note 2: On 10 July 2008, the Company increased its share capital by way of capitalisation from the capital reserve (creation of 4 shares for every 10 shares based on a total share capital of 959,521,650 shares as at 31 December 2007). For details of changes in the Company's share capital following the capitalisation, please refer to the announcement of the Company "Profit Distribution and Capitalisation from Capital Reserve for 2007" dated 4 July 2008.

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

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

No	Names of shareholders subject to lock-up	Number of shares subject to lock-up as at 31 December 2007	Number of shares released from lock-up during the reporting period	Increase in number of shares subject to lock-up during the reporting period	Number of shares subject to lock-up at the end of the reporting period	Time for listing and trading	Number of additional shares to be listed and traded	Lock-up conditions
1	Zhongxingxin	310,982,741	47,976,083	–	263,006,658	29 December 2008	263,006,658	Note 1 and Note 2
2	Hou Weigui	164,700	–	–	164,700			Note 3
3	Yin Yimin	91,260	–	–	91,260			
4	Zhang Taifeng	91,260	–	–	91,260			
5	Zhou Susu	79,320	–	16,440	95,760			Note 4
6	Shi Lirong	71,820	–	–	71,820			Note 3
7	Wei Zaisheng	71,820	–	–	71,820			
8	Chen Jie	70,875	–	–	70,875			
9	He Shiyou	68,255	–	–	68,255			
10	Ni Qin	59,130	–	–	59,130			
11	Ding Mingfeng	46,317	–	–	46,317			
12	Zhang Xiufa	41,473	–	–	41,473			Note 6
13	Xie Daxiong	33,629	–	–	33,629			Note 3
14	Fang Rong	31,039	–	–	31,039			
15	Ye Weimin	25,353	–	–	25,353			
16	Tian Wenguo	18,225	4,556	–	13,669			Note 3 and Note 5
17	Qu Deqian	7,515	–	–	7,515			Note 3
	Total	**311,954,732**	**47,980,639**	**16,440**	**263,990,533**			

Note 1: 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 of the Company, 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 it's A shares for the 60 trading days prior to the initial announcement made by the Board 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 (if any) 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 "RMB30.36" following the implementation of the 2005 and 2006 profit distribution plans of the Company on 14 July 2006 and 27 July 2007, respectively. As at 29 December 2007, the special undertaking had been fully complied with.

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

Note 2: Time for listing and trading of shares subject to lock-up held by Zhongxingxin

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 2008	263,006,658	—	336,574,339	Expiry of lock-up under share reform and disposal of unlocked shares

Note 3: In accordance with relevant domestic regulations, up to 25% of the shares held may be sold through the stock exchange each year.

Note 4: At the thirteenth meeting of the fourth session of the Board of the Directors of the Company held on 19 March 2008, the resignation of Ms Zhou Susu from the position of senior vice president of the Company was approved. In accordance with domestic regulations, Ms Zhou Susu's existing and additional shareholdings in the Company shall be subject to lock-up for a period of 6 months from her departure.

Note 5: All shares held by Mr Tian Wenguo, the Executive Vice President of the Company, and released in 2007 were sold in the same year. As at 31 December 2007, the numbers of shares subject to lock-up held by Mr Tian Wenguo was the actual number of his shareholdings in the Company. In accordance with relevant regulations, 25% of such shareholdings were released from lock-up at the beginning of 2008.

Note 6: Lock-up had not been released due to personal reasons.

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	24,913 shareholders (of which 24,590 were holders of A shares and 323 were holders of H shares).

Shareholdings of 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	35.08%	336,574,339	263,006,658	None
2. HKSCC Nominees Limited	Foreign shareholders	16.66%	159,824,439	—	Unknown
3. China AMC Dividend Fund	Others	1.88%	18,069,912	—	Unknown
4. China International Domestic Demand Dynamic Stock Fund	Others	1.60%	15,392,974	—	Unknown
5. China International Fund Management Alpha Stock Fund	Others	1.31%	12,552,066	—	Unknown
6. Hunan Nantian (Group) Co., Ltd	Others	1.19%	11,431,810	—	Unknown
7. China Post Core Growth Fund	Others	1.08%	10,318,026	—	Unknown
8. Southern Longyuan Sector Theme Fund	Others	0.94%	8,982,974	—	Unknown
9. China AMC Advantage Growth Fund	Others	0.85%	8,149,953	—	Unknown
10. Boshi Value Growth Fund	Others	0.83%	7,999,301	—	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 (shares)	Class of shares
1. HKSCC Nominees Limited	159,824,439	H Shares
2. Zhongxingxin	73,567,681	A Shares
3. China AMC Dividend Fund	18,069,912	A Shares
4. China International Domestic Demand Dynamic Stock Fund	15,392,974	A Shares
5. China International Fund Management Alpha Stock Fund	12,552,066	A Shares
6. Hunan Nantian (Group) Co., Ltd	11,431,810	A Shares
7. China Post Core Growth Fund	10,318,026	A Shares
8. Southern Longyuan Sector Theme Fund	8,982,974	A Shares
9. China AMC Advantage Growth Fund	8,149,953	A Shares
10. Boshi Value Growth Fund	7,999,301	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 Dividend Fund (3rd) and China AMC Advantage Growth Fund (9th) are managed by the same manager, China Asset Management Co., Ltd; China International Domestic Demand Dynamic Stock Fund (4th) and China International Fund Management Alpha Stock Fund (5th) are managed by the same manager, China International Fund Management Co., Ltd.

2. There were no connected party relationships or concerted party relationships between Zhongxingxin and the other top ten shareholders and top ten holders of shares not subject to lock-up.

3. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and the top ten holders of shares that are not subject to lock-up.

Note 1: During the reporting period, there was no placing of new shares in the Company to any strategic investors or ordinary legal persons that required shareholding for 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	—	336,574,339	A shares	263,006,658	73,567,681	Nil

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

2. Controlling shareholders and de facto controllers of the Company

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

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

As at 30 June 2008, 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:

		Approximate shareholding as a percentage (%) of:	
Name	**Number of shareholding**	**Total share capital**	**Class of shares**
Zhongxingxin	336,574,339 A Shares(L)	35.08(L)	42.10(L)
Zhongxing WXT	336,574,339 A Shares(L)	35.08(L)	42.10(L)
Xi'an Microelectronics	336,574,339 A Shares(L)	35.08(L)	42.10(L)
China Aerospace Times Electronics Corporation	336,574,339 A Shares(L)	35.08(L)	42.10(L)
China Aerospace Science and Technology Corporation	336,574,339 A Shares(L)	35.08(L)	42.10(L)
FIL Limited (Formerly known as Fidelity International Limited)	15,781,100 H Shares(L)	1.64(L)	9.85(L)
Goldman Sachs (Asia) L L C	11,622,000 H Shares(L)	1.21(L)	7.26(L)
Goldman Sachs (Cayman) Holding Company	11,622,000 H Shares(L)	1.21(L)	7.26(L)
Aranda Investments (Mauritius) Pte Ltd	11,141,800 H Shares(L)	1.16(L)	6.96(L)
Halbis Capital Management (Hong Kong) Limited	15,464,320 H Shares(L)	1.15(L)[Note]	6.89(L)[Note]
Deutsche Bank Aktiengesellschaft	9,675,801 H Shares(L)	1.01(L)	6.04(L)
	2,992,970 H Shares(S)	0.31(S)	1.87(S)
FMR LLC	12,676,980 H Shares(L)	1.32(L)[Note]	5.65(L)[Note]
Massachusetts Financial Services Company ("MFS")	8,428,100 H Shares(L)	0.88(L)	5.26(L)
Sun Life Financial, Inc	8,428,100 H Shares(L)	0.88(L)	5.26(L)

(L) long position; (S) short position

Note: Shareholdings as percentage of total share capital and class shares are calculated on the basis of the Company's total share capital (1,343,330,310 shares) and total number of H shares (224,211,456 shares) after the capitalisation of capital reserves on 10 July 2008.

Save as disclosed above, as at 30 June 2008, so far as the Directors, Supervisors and senior management of the Company are aware, no person had an interest or short position in the shares and underlying shares of the Company that was required to be recorded in the register maintained pursuant to Section 336 of the Securities and Futures Ordinance.

4 Purchase, sale and redemption of shares

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

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

During the reporting period, the effective shareholdings in the issued share capital of the Company held by and 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 period are as follows:

No	Name	Title	Number of A shares held at the beginning of the reporting period (shares)	Increase in the no. of shares held during the period	Decrease in the no. of shares held during the period	Number of A shares held at the end of the period (shares)	Reason for the change	Quota of Subject Shares granted under Phase I of the Share Incentive Scheme of the Company (shares)
Directors of the Company								
1	Hou Weigui	Chairman	219,600	–	–	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	–	–	121,680		–
8	Shi Lirong	Director and Executive Vice President	95,760	–	–	95,760		–
9	He Shiyou	Director and Executive Vice President	91,007	–	–	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	–	–	–	–		–
Supervisors of the Company								
15	Zhang Taifeng	Chairman of the Supervisory Committee	121,680	–	–	121,680		–
16	Wang Wangxi	Supervisor	–	–	–	–		–
17	He Xuemei	Supervisor	–	–	–	–		–
18	Qu Deqian	Supervisor	10,020	–	–	10,020		–
19	Wang Yan	Supervisor	–	–	–	–		–

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

No	Name	Title	Number of A shares held at the beginning of the reporting period (shares)	Increase in the no. of shares held during the period	Decrease in the no. of shares held during the period	Number of A shares held at the end of the period (shares)	Reason for the change	Quota of Subject Shares granted under Phase I of the Share Incentive Scheme of the Company (shares)
Senior management of the Company								
20	Wei Zaisheng	Executive Vice President and Chief Financial Officer	95,760	–	–	95,760		–
21	Xie Daxiong	Executive Vice President	44,839	–	–	44,839		100,000
22	Tian Wenguo	Executive Vice President	18,225	–	4,556	13,669	Note 1	100,000
23	Qiu Weizhao	Executive Vice President	–	–	–	–		100,000
24	Fan Qingfeng	Executive Vice President	–	–	–	–		150,000
25	Chen Jie	Senior Vice President	94,500	–	–	94,500		100,000
26	Fang Rong	Senior Vice President	41,385	–	–	41,385		100,000
27	Zhao Xianming	Senior Vice President	–	–	–	–		180,000
28	Ding Mingfeng	Senior Vice President	61,756	–	–	61,756		100,000
29	Pang Shengqing	Senior Vice President	–	–	–	–		150,000
30	Zeng Xuezhong	Senior Vice President	–	–	–	–		150,000
31	Xu Huijun	Senior Vice President	–	–	–	–		180,000
32	Ye Weimin	Senior Vice President	33,804	–	–	33,804		100,000
33	Ni Qin	Senior Vice President	78,840	–	–	78,840		100,000
34	Wu Zengqi	Senior Vice President	–	–	–	–		150,000
35	Feng Jianxiong	Secretary to the Board	–	–	–	–		100,000
Total			**1,128,856**	**–**	**4,556**	**1,124,300**		**1,910,000**

Note 1: Shareholdings were reduced in accordance with the provisions of "Administrative Rules for Company Shareholdings by Directors, Supervisors and Senior Management of Listed Companies and Their Changes".

Note 2: 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 3: During the reporting period, the number of shareholdings in the Company of resigned senior management staff Ms Zhou Susu remained unchanged, while Mr Yu Yong and Mr Zhong Hong did not hold any shares in the Company.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(II) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. There were no changes in the Directors of the Company during the reporting period.

2. There were no changes in the Supervisors of the Company during the reporting period.

3. There were no changes in the senior management of the Company during the reporting period.

At the Thirteenth Meeting of the Fourth Session of the Board of Directors held on 19 March 2008, the resignation of Ms Zhou Susu as Senior Vice President of the Company and the resignations of Mr Yu Yong and Mr Zhong Hong respectively as Vice President of the Company were approved.

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

The interests in shares of the Company held by Directors, Supervisors and the President of the Company as at 30 June 2008 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 2008, 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 2008, 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 2008.

FINANCIAL RESULTS

Please refer to page 204 and page 312 of this report for the results of the Group for the six months ended 30 June 2008 prepared in accordance with PRC ASBEs and HKFRSs.

(1) REVIEW OF BUSINESS DURING THE FIRST HALF OF 2008

1. Overview of the PRC telecommunications industry in the first half of 2008

A changed scenario of market competition underpinned by more effective full-service operations was brought into shape for China's telecommunications industry as the restructuring of telecommunications operators was unveiled during the first six months of 2008, offering new challenges as well as opportunities for development to industry players. Meanwhile, the trend of mobile communications expanding rapidly at the expense of fixed-line businesses continued. According to the statistics from the Ministry of Industry and Information Technology, revenue for the telecommunications sector in China grew by 9.2% to RMB398.79 billion in the first six months of 2008, as compared to the same period last year. Fixed assets investments from telecommunications carriers grew by 9.9%, as compared to the same period last year, to RMB113.64 billion. The number of fixed users decreased to 356.321 million, which was 9.316 million less compared to the end of last year. On the other hand, there were 600.757 million mobile phone users, an increase of 53.451 million compared to the end of last year.

2. Overview of the global telecommunications industry in the first half of 2008

Competition in the global telecommunications continued to intensify during the first six months of 2008, as top-flight international carriers and equipment makers sought to capture new market shares in their respective domains. Emerging markets represented the main battlefield, where subtle changes were taking place in the competition among equipment makers.

Mobile data products enjoyed robust development with the support of HSPA technologies and posed serious threats to traditional fixed-line products. The rapid development of mobile data and broadband business has become a driving force for the future development of the global telecommunications industry.

3. Operating results of the Group for the first half of 2008

The Group continued to report stable business development in the first six months of 2008 as it maintained extensive yet in-depth cooperation with domestic as well as international mainstream carriers in a pro-active move to prepare itself for new market changes both at home and abroad.

The Group was well-positioned to cope with changes in the home market and a new scenario for competition thanks to its preparations and build-up over the years. Internationally, the Group responded to new situations and sustained continuous rapid growth through focused cultivation of niche markets, vigorous development of potential markets and enhanced investments in new products and technologies.

Operating revenue of the Group for the first six months of 2008 based on financial statements prepared in accordance with PRC ASBEs amounted to RMB19.729 billion, representing a year-on-year growth of 29.52%. Net profit grew by 21.21% to RMB557 million. Basic earnings per share amounted to RMB0.41 (after capitalisation of capital reserves).

REPORT OF THE BOARD OF DIRECTORS

(1) By market:

The domestic market

The Group's revenue from its domestic operations amounted to RMB7,062 million in the first six months of 2008. The Group completed investments in certain key projects to put itself in a favourable position for future competition in the domestic telecommunications market, riding on market changes and the opportunities presented by network optimisation projects undertaken by telecommunications carriers.

The international market

During the reporting period, the Group's revenue from its international operations grew by 58.93% to RMB12.667 billion, as compared to the same period last year, and accounted for 64.21% of its total revenue, which was 11.93 percentage points higher compared to the same period last year. The Group's international business development was underpinned by continued growth in key markets such as the Asia Pacific, the Middle East and Africa and growing business scale in developed countries.

(2) By products

Analysed by products, the Group registered year-on-year growth of 10.20% in revenue from wireless communications products, 88.35% in revenue from wireline switch and access systems, 66.69% in revenue from optical and data communications products, 19.54% in revenue from handset products and 51.79% in revenue from telecommunication software systems, services and other products during the reporting period.

Wireless communications products

While growth momentum of the global GSM market remained strong during the first six months of 2008, the rapid development of the market became more demanding in terms of the pricing and performance of GSM equipments. The Group responded to opportunities and challenges associated with the growing market by increasing investments in the research and development of new products to ensure rapid development for its GSM system product business. Meanwhile, we maintained our competitive edge in the CDMA market and assured stable development of our CDMA system product business.

Optical and data communications products

Optical communications products have been the Group's key focus for development. During the reporting period, the Group reported strong growth in its optical communications business as it captured unclaimed markets and concluded new deals with certain mainstream carriers. Our business in international data communications products also reported strong growth with rising market shares.

Wireline switch and access products

During the reporting period, the Group advanced the development of its fixed-line intelligence products by stepping up cooperation with domestic and international mainstream carriers as it sought to leverage on the trend of integration in the global communications market.

Handsets

There was a setback in growth in the handset market during the first six months of 2008 in line with the global economic slowdown. Competition in the handset market was more complicated than ever as the handset was becoming a fusion product although the demand for low-end cell phones remained substantial.

REPORT OF THE BOARD OF DIRECTORS

During the reporting period, the Group's handset business sustained stable development at a relatively fast pace, as rapid growth was reported for our GSM, WCDMA and CDMA handsets while new inroads were being made in the high-end market. The Group secured a substantial market share in China Mobile Communications Corporation's phase two tender for TD-SCDMA handsets. Rapid growth was also reported for terminal products such as data cards, while sound partnerships were built with leading international carriers.

(2) DISCUSSION AND ANALYSIS IN ACCORDANCE WITH PRC ASBES

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

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

Unit: RMB in thousands

Item	**Six months ended 30 June 2008**	Six months ended 30 June 2007	Percentage of increase/decrease
Operating revenue	**19,728,984**	15,231,932	29.52%
Operating profit	**462,922**	284,318	62.82%
Net profit	**557,386**	459,840	21.21%

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

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 product	Operating revenue (RMB in thousands)	Operating costs (RMB in thousands)	Gross profit margin (%)	Year-on-year increase/ decrease in operating revenue	Year-on-year increase/ decrease in operating costs	Year-on-year increase/ decrease in gross profit margin (percentage points)
1. By industry						
Manufacturing of communication equipments	19,728,984	13,102,213	33.59%	29.52%	35.38%	-2.87
2. By product						
Wireless communications products	7,495,122	4,855,080	35.22%	10.20%	35.44%	-12.08
Wireline switch and access systems	1,115,337	750,070	32.75%	88.35%	108.13%	-6.39
Optical and data communications systems	4,242,792	2,553,649	39.81%	66.69%	51.02%	6.24
Handsets	4,294,615	3,161,687	26.38%	19.54%	15.59%	2.52
Telecommunication software systems, services and other products	2,581,118	1,781,727	30.97%	51.79%	36.31%	7.84
Total	19,728,984	13,102,213	33.59%	29.52%	35.38%	-2.87
Of which: connected transactions*	48,256	31,048	35.66%	412.98%	400.77%	1.57
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 parties as agents. Such transactions will continue in future.					

Of which: connected transactions involving sales of products or provision of labour services to the controlling shareholder and its subsidiaries by the Company during the Reporting Period amounted to RMB204,000.

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

REPORT OF THE BOARD OF DIRECTORS

3. Breakdown of principal operations by geographic region

Unit: RMB in thousands

Region	Operating revenue	Year-on-year increase/decrease in operating revenue
The PRC	7,061,610	-2.75%
Asia (excluding the PRC)	5,650,277	41.97%
Africa	3,834,430	107.24%
Other regions	3,182,667	48.69%
Total	**19,728,984**	**29.52%**

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

Unit: RMB in thousands

By product	Operating revenue	Operating costs	Gross profit margin
Wireless communications	7,495,122	4,855,080	35.22%
Optical and data communications	4,242,792	2,553,649	39.81%
Handsets	4,294,615	3,161,687	26.38%
Telecommunication software systems, services and other products	2,581,118	1,781,727	30.97%

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

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

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

Item	As a percentage of total profit for the six months ended 30 June 2008	As a percentage of total profit for the six months ended 30 June 2007	Change (percentage points)
Operating profit	53.29%	46.54%	6.75
Expenses for the period	667.40%	833.20%	-165.80
Investment gains	5.95%	1.44%	4.51
Non-operating income and expenses, net	46.71%	53.46%	-6.75

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

REPORT OF THE BOARD OF DIRECTORS

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

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

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

8. Difficulties encountered by the Group's operations in the first half of 2008

There are rooms for improvement in our product delivery capabilities as the volume of project work increased in tandem with our fast-growing overseas business, particularly in view of the fact that the focus of competition for overseas projects was shifting from technology, business terms to engineering and such other aspects.

9. Investments

(1) Use of proceeds during the reporting period

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

REPORT OF THE BOARD OF DIRECTORS

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

Unit: RMB in ten thousands

		Gross amount of issue proceeds utilised during the reporting period	106,357
Gross amount of issue proceeds	396,144.35	**Gross amount of issue proceeds utilised to-date**	264,051

Projects committed	**Planned investment amount**	**Any change in project**	**Actual amount invested**	**Earnings**	**Scheduled progress achieved**	**Projected earnings realised**
The building-up of the research and development and production environment and scale production capacity of TD-SCDMA HSDPA system equipment	18,782	No	17,304	See below	Yes	Yes
The building-up of the development environment and scale production capacity of TD-SCDMA terminal products	11,776	No	9,624	See below	Yes	Yes
Industrialisation of TD upgrade technology	67,326	No	8,976	See below	Yes	Yes
Construction of innovative handset platform	174,915	No	95,344	See below	Yes	Yes
Construction of next generation broadband wireless mobile SDR platform	53,358	No	20,926	See below	Yes	Yes
Industralisation of next generation IP-based amalgamation network for full multi-media services	39,727	No	33,355	See below	Yes	Yes
Research, development and production of integrated network management system	56,635	No	24,303	See below	Yes	Yes
Industrialisation of xPON optical access	49,371	No	21,591	See below	Yes	Yes
Industrialisation of next generation optical network transmission equipment	64,108	No	26,577	See below	Yes	Yes
Construction of ICT integrated business platform	99,647	No	4,471	See below	Yes	Yes
Industrialisation of RFID systems integration	19,394	No	1,580	See below	Yes	Yes
Total	**655,039**		**264,051**			

Note 1: In order to expedite the construction of issue proceeds investment projects, the Company had used internal funds for initial investments in issue proceed investment projects prior to the receipt of the issue proceeds. As at 31 December 2007, the actual amount invested using internal funds was RMB1,576,936,600. In order to increase capital efficiency and to reduce financial expenses, the Company subsequently replaced the initially invested internal funds with issue proceeds. For details of the replacement, please refer to the "Announcement on the Replacement of Internal Funds Previously Invested in Issue Proceed Investment Projects with Proceeds from the Issue of Bonds cum Warrants" of the Company dated 14 March 2008.

Note 2: Unutilised issue proceeds remained deposited in the account of the Company opened with National Development Bank, Shenzhen Branch designated for such issue proceeds.

REPORT OF THE BOARD OF DIRECTORS

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

The building-up of the research and development and production environment and scale production capacity of TD-SCDMA HSDPA system equipment

Research and development of system equipment for the project was basically completed and such equipment was ready for supply to phase one commercial application. Phase one construction of ancillary facilities for production environments, including the assembly environment, adjustment and testing environment and high-temperature aging environment, was also completed.

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

ZTE has developed a research and development environment that supports simultaneous development of multiple platforms/multiple models of TD terminals, including purchase application platforms, product adjustment and testing apparatus and product testing equipment. On this basis, a variety of TD-SCDMA terminals were developed. In terms of large-scale production, the Company has developed capabilities for supplying products in large volumes through massive construction of production equipment such as CAL and final test equipment and other testing equipment to establish itself as a leader in China's TD-SCDMA terminal market.

Industrialisation of TD upgrade technology

Vigorous efforts were being made in the critical technology research and standard advancement for TD upgrade technologies in accordance with relevant plans. Simulations and initial verification of a number of key TD upgrade technologies were completed and propositions for industry standards were approved by competent authorities. Meanwhile, preliminary research of products based on TD upgrade technology was progressing smoothly towards pilot commercial application and commercialisation in accordance with relevant plans. The completion of the project will gear up the Company significantly in terms of the long-term development and competitive position of its wireless products.

Construction of innovative handset platform

Handset TV: The handset TV platform was being developed with the aim of achieving customisation in a short period by tracking domestic and international mainstream handset TV standards. Currently the design of the platform structure has been completed and detailed design is underway.

Intelligence handsets: Work is underway for the development of the 3G WM handset products with a full keypad and large touch-screen operating on the Qualcomm platform.

GoTa handsets: Research and development for 2 professional models of GoTa terminal products were completed and research is currently underway on a professional GoTa terminal with special features such as out-of-network communications and anti-explosion devices.

Development of initiation protocol modules and application services was completed for the IMS customer-end software platform. Of which, PoC and VideoSharing services were applied in the TD terminal series, while services such as VoIP and VCC and dynamic book address were being upwardly migrated to WCDMA and CDMA/WiFi terminals.

REPORT OF THE BOARD OF DIRECTORS

Construction of next-generation broadband wireless mobile SDR platform

The integration of the BBU and RRU hardware platforms with the base software platform was completed and smooth progress in research and development and commercialisation was reported. A number of ZTE wireless products will be switched to the SDR platform in succession as pilot production commenced during the first six months of 2008. The project is set to bring significant enhancements to the competitiveness of the Company's wireless products and market projections are sound.

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

A state-of-the-art multi-media network solution named ZIMS™ has been launched. Built on the core IMS system structure that supports the fusion of a rich variety of wireline networks and wireless networks as well as the provision of voice, data and multi-media services, this solution provides users with next-generation information services characterised by strong multi-media functions, diversity and the ability to customise.

For IMS core networks, efforts were being made towards the integration of fixed-line and mobile networks to facilitate centralised network control.

In addition to basic functions such as real-time news/visuals and group management, our IMS services also succeeded in internal experiments in providing attractive and differentiated value-added applications such as video conferencing, data conferencing and shared applications with desk-top interface. These applications were put to pilot application and tests in some of our client carriers' networks and the positive responses from carriers augured well for large-scale launch. While IMS was able to effectively integrate the differentiated services described above, its user-friendliness at the PC customer-end was also further enhanced as we optimised the customisation ability of PC customer-end products employed in pilot operations. Meanwhile, we were also engaged in active collaboration with certain users, whereby company PC customer-end product development was conducted by third parties (including carrier-users) using the Company's PC customer-end internal auditing products. These initiatives paved the way for large-scale marketing of our PC customer-end products.

Research, development and production of Integrated network management system

Development of the centralised network management software platform level was completed to facilitate inter-connection among core networks, wireless networks (including GSM, CDMA, WCDMA and TD), transmission networks, data networks and power supply networks, overall topology, alarm management, performance data collection and centralised management, as well as auxiliary functions such as report generation and event processing flow. The project is ready for pilot operations and there are plans to commence such operations in the Middle East.

Industrialisation of xPON optical access

China Telecom and China Netcom started large-scale construction of EPON networks during the first six months of 2008. ZTE topped the EPON tender lists of China Telecom and China Netcom as it distinguished itself from competition by virtue of its solid research and development capabilities and comprehensive range of sophisticated products. Our EPON and GPON products also reported strong results in overseas markets, adding Telecom Italia, PCCW of Hong Kong and Telecom Argentina to the customer list.

REPORT OF THE BOARD OF DIRECTORS

Industrialisation of next generation optical network transmission equipment

Product research and development for the next generation optical network project was completed. Certain equipment of the project were commercially launched after passing stringent tests organised by China Telecom Research Institute with excellent results in performance. The Unitrans series, comprising one-stop solutions for large-capacity, ultra-length trunk WDM, metro WDM, ASON/MSTP equipment, 2G/3G, RPR, major customers, IP OVER WDM/OTN, PTN and OTN, etc, generally enhances the profitability of network operators by lowering start-up costs in construction while significantly increasing network scalability and operability. With these equipment, the Company is expected to expand the scope of customers and secure shares in the high-end market with the addition of new customers.

Currently, optical networks made by the Company have been successfully employed in the construction of the video monitoring transmission network of Qinghai-Tibet Rail (the largest commercial RPR loop in China), the West China loop of China Mobile (the world's largest WDM transmission backbone network) and the BSNL national backbone network in India (the longest and most sophisticated WDM transmission network undertaken by Chinese manufacturers in overseas projects). As such, next-generation optical networks should embrace bright market prospects.

Construction of ICT integrated business platform

The primary purpose of the ICT integrated business platform project is to meet requirements arising from changing business focuses of carriers by developing an operable and manageable integrated business platform for carriers and providing integrated information services to corporate customers with the application IT and CT technological integration. Currently, the project is progressing according to planned schedules with the completion of research and development of core platform functions during the first half of the year. Broadband-based ICT integrated business platforms have been launched in China for use by China Mobile, China Telecom and China Netcom, providing services such as integrated offices, online finances, centralised security and mobile commerce. In the international market, projects have been undertaken to build ICT integrated business platforms for carriers in the Middle East and Africa.

Industrialisation of RFID systems integration

With the completion of principal RFID software and hardware product development, we are capable of providing overall RFID integrated systems. Our ultra-high-frequency RFID series of products passed the stringent tests of the National RFID Monitoring and Testing Centre and was listed as an approved model of radio frequency transmission equipment. Our equipment for non-stop toll ways and equipment for installation in vehicles received formal certification after passing stringent tests of the Ministry of Transport and its Transport Projects Monitoring and Testing Centre. Pilot RFID integrated application projects are currently underway and sound prospects are expected as it gains further exposure in the market.

(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 2008 in the 2007 Annual Report.

REPORT OF THE BOARD OF DIRECTORS

(3) MANAGEMENT DISCUSSION AND ANALYSIS PREPARED IN ACCORDANCE WITH HKFRSS

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

Operating revenue

Unit: RMB in millions

Product segment	For the six months ended 30 June 2008		For the six months ended 30 June 2007	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
Wireless communications systems	7,495.1	38.0%	6,801.4	44.6%
Wireline switch and access systems	1,115.3	5.7%	592.1	3.9%
Optical and data communications systems	4,242.8	21.5%	2,545.4	16.7%
Handsets	4,294.6	21.8%	3,592.5	23.6%
Telecommunication software systems, services and other products	2,581.2	13.0%	1,700.5	11.2%
Total	19,729.0	100.0%	15,231.9	100.0%

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

Unit: RMB in millions

Region	For the six months ended 30 June 2008		For the six months ended 30 June 2007	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
The PRC	7,061.6	35.8%	7,261.3	47.7%
Asia (excluding the PRC)	5,650.3	28.6%	3,980.0	26.1%
Africa	3,834.4	19.4%	1,850.2	12.1%
Other regions	3,182.7	16.2%	2,140.4	14.1%
Total	19,729.0	100.0%	15,231.9	100.0%

The Group's operating revenue for the first six months of 2008 amounted to RMB19,729.0 million, a 29.5% growth compared to the same period last year. Operating revenue from international sales continued to grow, increasing by 58.9% to RMB12,667.4 million. Analysed by product, revenue from all product segments registered year-on-year growth in varying degrees.

REPORT OF THE BOARD OF DIRECTORS

The growth in operating revenue from the Group's wireless communications segment was attributable mainly to increased operating of its GSM systems in the global market.

The growth in operating revenue from the Group's wireline switch and access segment was attributable mainly to sales growth in the domestic market.

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

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

Revenue generated from the sales of the Group's telecommunications software systems, services and other products increased mainly as a result of increased sales of the Group's video and network terminals, monitoring equipment and fixed terminals.

Cost of sales and gross profit

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

Unit: RMB in millions

Product segment	**For the six months ended 30 June 2008**		For the six months ended 30 June 2007	
	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 systems	**4,927.1**	**65.7%**	3,623.3	53.3%
Wireline switch and access systems	**772.9**	**69.3%**	373.8	63.1%
Optical and data communications systems	**2,603.0**	**61.4%**	1,735.8	68.2%
Handsets	**3,184.6**	**74.2%**	2,753.2	76.6%
Telecommunication software systems, services and other products	**1,831.7**	**71.0%**	1,355.9	79.7%
Total	**13,319.3**	**67.5%**	**9,842.0**	**64.6%**

Unit: RMB in millions

Product segment	**For the six months ended 30 June 2008**		For the six months ended 30 June 2007	
	Gross profit	**Gross profit margin**	Gross profit	Gross profit margin
Wireless communications systems	**2,568.0**	**34.3%**	3,178.1	46.7%
Wireline switch and access systems	**342.4**	**30.7%**	218.3	36.9%
Optical and data communications systems	**1,639.8**	**38.6%**	809.6	31.8%
Handsets	**1,110.0**	**25.8%**	839.3	23.4%
Telecommunication software systems, services and other products	**749.5**	**29.0%**	344.6	20.3%
Total	**6,409.7**	**32.5%**	**5,389.9**	**35.4%**

REPORT OF THE BOARD OF DIRECTORS

Cost of sales of the Group for the first six months of 2008 increased by 35.3% as compared to the same period last year to RMB13,319.3 million. The Group's overall gross profit margin was 32.5%, 2.9 percentage points down from 35.4% for the same period last year, primarily as a result of lower gross profit margin for wireless communications and wireline switch and access products.

Cost of sales for the Group's wireless communications systems increased by 36.0% to RMB4,927.1 million, compared to the same period last year, while the segment's gross profit margin was 34.3% compared to 46.7% for the same period last year. The decline in gross profit margin for wireless communications systems mainly reflected the decreasing gross profit margin of CDMA and GSM system products coupled with lower gross profit contribution from domestic TD-SCDMA projects.

Cost of sales for the Group's wireline switch and access products amounted to RMB772.9 million, increasing by 106.8% compared to the same period last year. Gross profit margin for the Group's wireline switch and access segment was down to 30.7% from 36.9% for the same period last year, mainly as a result of lower selling prices in the domestic market.

Cost of sales for the Group's optical and data communications products amounted to RMB2,603.0 million, increasing by 50.0% compared to the same period last year. The increase in gross profit margin for the Group's optical and data communications segment to 38.6% from 31.8% for the same period last year was attributable mainly to gross profit margin improvements for optical communications systems products.

Cost of sales for the Group's handset products amounted to RMB3,184.6 million, increasing by 15.7% compared to the same period last year. Gross profit margin for the Group's handsets segment improved to 25.8% as compared to 23.4% for the same period last year, mainly in tandem with the increase in the international sales of 3G handsets as a percentage of total sales.

Cost of sales for the Group's telecommunications software systems, services and other products amounted to RMB1,831.7 million, increasing by 35.1% compared to the same period last year, with a gross profit margin of 29.0%, compared to 20.3% for the same period last year. The growth was attributable mainly to the rising growth profit margin of video and network terminals and monitoring equipment.

Other income and gains

Other income and gains of the Group for the first six months of 2008 amounted to RMB509.6 million, representing a 23.8% growth compared to RMB411.7 million for the same period last year. The growth reflected primarily gains from financial derivative products and increased VAT rebates for software products and government subsidies.

Research and development costs

The Group's research and development costs for the first six months 2008 increased by 8.3% to RMB1,647.9 million from RMB1,521.5 million for the same period last year, but decreased from 10.0% to 8.4% as a percentage of operating revenue. The decrease as a percentage of operating revenue despite growth in gross amount was attributable mainly to growing business scale and the capitalisation of part of the development costs.

Selling and distribution costs

The Group's selling and distribution costs for the first six months of 2008 increased by 7.3% to RMB2,666.0 million from RMB2,484.3 million for the same period last year, but decreased from 16.3% to 13.5% as a percentage of operating revenue. The increase in the gross amount of selling and distribution costs was attributable mainly to higher labour costs, traveling expenses, consultancy fees and transportation costs in tandem with overseas market expansion.

REPORT OF THE BOARD OF DIRECTORS

Administrative expenses

Administrative expenses of the Group for the first six months of 2008 increased by 19.6% to RMB1,091.2 million, as compared to RMB912.5 million for the same period last year, but decreased from 6.0% to 5.5% as a percentage of operating revenue, reflecting mainly the growth in business scale.

Other expenses

The Group recorded other operating expenses of RMB333.8 million for the first six months of 2008, increasing by 116.2% as compared to RMB154.4 million for the same period last year. This was primarily the result of increased bad debt provision and exchange losses.

Profit from operating activities

The Group's profit from operating activities for the first six months of 2008 increased by 61.9% to RMB1,180.4 million from RMB729.0 million in the same period of 2007, primarily as a result of expanded business scale.

Finance costs

Finance costs of the Group for the first six months of 2008 increased by 168.2% to RMB321.6 million from RMB119.9 million for the same period last year, primarily as a result of increased amounts in interest-bearing bank borrowings.

Tax

The Group's income tax expense for the first six months of 2008 recorded a 2.6 fold increase to RMB199.2 million from RMB55.4 million for the same period last year, or from 9.1% to 22.9% as a percentage of pre-tax profit. The increase was attributable mainly to higher income tax rates for subsidiaries with higher profits coupled with rising overseas income tax.

Profit attributable to minority interests

The Group's minority interests for the first six months of 2008 amounted to RMB112.0 million, representing a 17.2% growth as compared to RMB95.6 million for the same period last year. Minority interests as a percentage of net profit decreased slightly to 16.7% from 17.2% for the same period last year, reflecting mainly higher profits of subsidiaries with a higher level of minority interests.

Net profit and net profit margin

Net profit (excluding minority interests) of the Group for the first half of 2008 increased by 21.2% to RMB557.4 million, compared to RMB459.8 million for the same period in 2007. Net profit margin (excluding minority interests) was lower at 2.8% compared to 3.0% for the same period in 2007.

REPORT OF THE BOARD OF DIRECTORS

Cash flow data

Unit: RMB in millions

Items	**For the six months ended 30 June 2008**	For the six months ended 30 June 2007
Net cash outflow from operating activities	**(3,495.5)**	(363.6)
Net cash outflow from investing activities	**(555.4)**	(635.4)
Net cash inflow from financing activities	**5,267.2**	2,349.7
Net increase in cash and cash equivalents	**1,216.3**	1,350.7

Operating activities

The Group had a net cash outflow from operating activities of RMB3,495.5 million for the first six months of 2008 compared to a net cash outflow of RMB363.6 million for the same period of 2007, reflecting mainly year-on-year increase in cash outflow, including an increase of RMB5,860.9 million in procurements required by expanded sales, RMB531.9 million in payments to staff and RMB159.2 million in dividend or interest payments. Cash inflow of operating revenue, on the other hand, only increased by RMB3,274.8 million.

Investing activities

The Group's net cash outflow from investment activities for the first six months of 2008 was RMB555.4 million compared to net cash outflow of RMB635.4 million for the same period of 2007, as cash paid for the acquisition of fixed assets, intangible assets and other long-term assets was RMB81.6 million less while an additional RMB33.5 million was received in government funding compared to the same period last year.

Financing activities

The Group's net cash inflow from financing activities for the first six months of 2008 was RMB5,267.2 million, which mainly reflected cash receipt of RMB3,961.4 million from the issue of Bonds cum Warrants and a net increase of RMB1,305.8 million in bank loans.

Disclosure required under the Hong Kong Stock Exchange Listing Rules

In compliance with paragraph 40 of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange Listing Rules"), the Company confirms that, save as disclosed herein, there has been no material change in the current information regarding the Company from the information disclosed in the 2007 Annual Report of the Company in relation to those matters set out in paragraph 32 of Appendix 16 to the Hong Kong Stock Exchange Listing Rules.

REPORT OF THE BOARD OF DIRECTORS

(4) BUSINESS OUTLOOK AND RISK EXPOSURE FOR THE SECOND HALF OF 2008

1 Business outlook for the second half of 2008

A clearer picture of competition among domestic telecommunications carriers will emerge in the latter half of the year, while the international market is expected to sustain stable growth. The Group will develop its international business vigorously while reinforcing its business achievements in the home market, seeking to maintain its pole position in emerging markets such as the Asia Pacific and North Africa and make new inroads in developed markets such as North America and Europe with focused efforts. We will pursue rapid, healthy and sustainable growth by stepping up with brand building and focusing on the development of GSM, TD-SCDMA, WCDMA, CDMA, optical communication and such other products.

2 Business risk exposure

(1) Foreign exchange risks

As international businesses account for an increasing share of the Group's operations, volatility in the international economic environment means that the Group is inevitably subject to the risk of exchange rate changes over the long term.

(2) Country risks

The expansion of the Group's international business demands higher risk aversion abilities to cope with issues arising from economic, political and legal differences in various countries.

(3) Credit risks

As the Group's business continues to expand, its business development will inevitably be subject to varied credit profiles of customers.

(4) Interest rate risks

Business expansion and investment return of enterprises are subject to substantially aggravated risks relating to effective interest rates and financial obligations amid volatility of the global financial system caused by the U.S. sub-prime crisis and China's macro-economic control measures.

MATERIAL MATTERS

(I) CORPORATE GOVERNANCE

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

At the Fifteenth Meeting of the Fourth Session of the Board of Directors of the Company held on 17 July 2008, the "Resolution of the Company on the 'Explanatory Statement on Rectification Matters set out in the Corporate Governance Rectification Report'" was considered and approved, whereby it was noted that the Company had diligently identified issues and inadequacies in its corporate governance structure in a comprehensive, objective and pragmatic manner in accordance with the requirements of regulatory authorities, and had conducted rectification in respect of the rectification matters set out in accordance with its rectification plan. For details of the "Explanatory Statement on Rectification Matters set out in the Corporate Governance Rectification Report", please visit the Company's designated website for information disclosure http://www.cninfo.com.cn.

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

3. Securities Transactions by Directors

The Directors of the Company confirmed that the Company had adopted the Model Code for Securities Transactions by Directors of Listed 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. The 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 report, including the financial statements of the Group for the six months ended 30 June 2008 prepared in accordance with PRC ASBEs and HKFRSs, respectively.

(II) IMPLEMENTATION OF THE 2007 PROFIT DISTRIBUTION PROPOSAL

The proposed profit distribution and capitalisation from capital reserves for 2007 (RMB2.5 for every 10 shares (including tax) in cash and creation of 4 shares for every 10 shares by way of capitalisation of capital reserves based on the Company's total share capital of 959,521,650 shares as at 31 December 2007.) was considered and approved at the 2007 annual general meeting held on 27 May 2008. Implementation of the plan was completed as at the date of this report with the record date being 9 July 2008 and the ex-rights/ex-dividend date being 10 July 2008, for A shares. In respect of H shares, the record date was 25 April 2008, and the dividend payment date was 10 July 2008. The date on which bonus A shares that are not subject to lock-up were listed and the dealing of bonus H shares commenced was 10 July 2008. For details please refer to the announcement of the Company "Bonus shares issue and dividends payment, date of dispatch of share certificates & cheques for dividends and date of commencement of dealing" dated 3 July 2008 and the "Announcement of profit distribution and capitalisation from capital reserves for 2007" dated 4 July 2008.

(III) PROFIT DISTRIBUTION PROPOSAL AND PROPOSAL FOR SHARE CAPITAL INCREASE BY WAY OF TRANSFER FROM RESERVES FOR THE SIX MONTHS ENDED 30 JUNE 2008

The Company does not propose any profit distribution or share capital increase by way of transferring from reserves for the six months ended 30 June 2008.

MATERIAL MATTERS

(IV) PROGRESS OF THE PHASE I OF SHARE INCENTIVE SCHEME DURING THE PERIOD

The Phase I Share Incentive Scheme of the Company was under normal implementation during the reporting period. For details of the effects of the Phase I Share Incentive Scheme of the Company on the financial position and operating results of the Company for the reporting period and future periods, please refer to No. 21 of Explanatory Note III and No. 49 of Explanatory Note VI to financial statements prepared under PRC ASBEs, Note 5 to financial statements prepared under HKFRSs and the section headed "Material Matters" in the 2007 annual report.

(V) MATERIAL LITIGATION OR ARBITRATION INCURRED OR SUBSISTING DURING THE REPORTING PERIOD

During the reporting period, the Group had no material litigation or arbitration. Progress during the reporting period of other new litigation and arbitration proceedings as at the date of this report and other litigation and arbitration proceedings occurring in previous periods were as follows:

1. In July 2008, an agent filed an application for arbitration demanding from the Company the payment of a total of US$35,819,000 (equivalent to approximately RMB245,686,000) in agency fees and interests. As at the date of this report, trial of the case has not yet commenced and it is difficult at this stage to predict the final outcome of the arbitration with any reasonable certainty. Based on the legal opinion furnished by the Company's legal department, the Directors are of the opinion that the above litigation will not have any material adverse impact on the Group's financial position and operating results of the current period.

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

   As at the end of the reporting period, no judgement had been awarded yet although the order to freeze RMB31 million in the Company's funds had been revoked by the court in charge of the case. As the case is not yet closed, it is difficult at this stage to predict the final outcome of the litigation with any reasonable certainty. Based on the legal opinion furnished by the lawyers appointed by the Company's lawyers, the Directors are of the opinion that the above litigation will not have any material adverse impact on the Group's current financial position.

Save as disclosed above, there was no substantial progress during the reporting period in respect of other litigation and arbitration proceedings disclosed in the 2007 annual report of the Company. The Company will make timely announcements in the event of any substantial progress of such 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.

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

MATERIAL MATTERS

(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 VIII to the financial statements prepared under PRC ASBEs for details of connected transactions.

2. During the reporting period, ongoing connected transactions (as defined in the Rules Governing the Listing of Stocks on Shenzhen Stock Exchange) conducted by the Group included the purchase of raw materials from, sales of products to and lease of properties from connected parties by the Company and its subsidiaries. The prices at which the connected transactions were conducted had been reached by the parties through arm's length negotiations in accordance with normal commercial terms. The prices at which the Group made purchases from connected parties were not higher than the prices at which the connected parties sold similar products to other 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 2008 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 Connected Transactions" and the "Announcement Regarding Ongoing Connected Transactions 2008 (as defined in the Rules Governing the Listing of Stocks on Shenzhen Stock Exchange)" published by the Company in the China Securities Journal, Securities Times and Shanghai Securities News on 19 April 2007 and 20 March 2008.

MATERIAL MATTERS

Classification	Member of the Group (party to connected transaction)	Connected person (counterparty to connected transaction)	Subject matter	Pricing basis	Transaction price	Amounts of connected transactions for January to June 2008 (Excluding VAT) (RMB10,000)	As a percentage of transactions in the same classification	Settlement	Whether different from estimated conditions
Purchase of raw materials	ZTE Kangxun	Zhongxingxin and subsidiaries Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou	Various products such as cases, cabinets, distribution frames, 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 and shelters circuit boards (FPC): RMB0.15-0.18 per sq. m. for 2-sided boards, RMB0.1-0.15 per sq. m. for single-sided boards depending on size, technical parameters and functional features. Shelter: RMB30,000–RMB100,000 per unit, depending on measurement, materials used and configuration.	35,891.49	3.49%	Banker's acceptance bill	No
		Zhongxing WXT	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: RMB1–50 per unit depending on the structure and raw materials; Optical components: RMB120–RMB17,500 per unit depending on materials performance	5,155.20	0.50%	Banker's acceptance bill	No
		Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Communications antennas etc.	Consistent with market prices (as per contract)	Communication antenna: RMB320–RMB2,500 per piece depending on technical parameters and functional features	8,024.10	0.78%	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)	312.96	1.60%	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)	1,095.25	5.61%	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)	1,595.75	8.18%	Banker's acceptance bill	No

MATERIAL MATTERS

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

4. 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.

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

6. At the Thirteenth Meeting of the Fourth Session of the Board of Directors of the Company held on 19 March 2008, the transfer of the entire 100% interest in ZTE Energy (Cayman) Limited held by ZTE (H.K.) Limited, a wholly-owned subsidiary of the Company, to Zhongxing Energy Company Limited, a connected party, for a consideration of US$4,450,000 was considered and approved. For details please refer to the "Announcement on Connected Transactions" and "Announcement on the Progress of Connected Transaction" published by the Company on 20 March 2008 and 15 May 2008.

(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.

MATERIAL MATTERS

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 occurrence (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 RMB11,805,600)	Assurance	3 years	No	No
Benin Telecoms S.A. (Note 2)	28 June 2007	US$3 million	Assurance	6.5 years	No	No

Total amount guaranteed during the reporting period	—
Total balance of amount guaranteed at the end of the reporting period (A)	RMB82,382,900

Guarantees provided in favour of subsidiaries

Total amount guaranteed in favour of subsidiaries during the reporting period	US$50,000,000
Total balance of amount guaranteed in favour of subsidiaries at the end of the reporting period (B)	US$61,405,500

Total amount guaranteed by the Company (including guarantees in favour of subsidiaries)

Total guaranteed amount (A+B) (Note 2)	RMB482,992,100
Total guaranteed amount as a percentage of net assets of the Company at the end of the reporting period	3.70%
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 debt-to-asset ratio exceeding 70% (D) (Note 3)	US$11,405,500
Amount of total guarantee exceeding 50% of net assets (E)	—
Aggregated amount of the three guarantee amounts stated above (C+D+E)	US$11,405,500

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

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

Note 3: In addition to guarantees described in Note 2, the Company provided a guarantee in respect of a bank loan extended to subsidiary Congo-Chine Telecom S.A.R.L. by pledging its 51% equity interests in Congo-Chine Telecom S.A.R.L. As the debt-to-asset ratio of Congo-Chine exceeded 70%, the said guarantee been considered and approved by the Board of Directors and the general meeting of the Company in accordance with requirements of relevant laws and regulations.

MATERIAL MATTERS

Note 4: Guaranteed amounts denominated in Indian Rupee are converted at the exchange rate of 1 Indian Rupee to RMB0.15970 (being the exchange rate published by the People's Bank of China on 30 June 2008); of which guaranteed amounts denominated in US dollars are converted at the exchange rate of US$1 to RMB6.85910 (being the exchange rate published by the People's Bank of China on 30 June 2008).

Note 5: All third party 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 third party 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.

(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 RMB1.75 million to the Company, and an amount of RMB1.75 million remained outstanding. The Group will continue to actively procure the settlement of the outstanding amount (Please refer to the 2005 annual report of the Group for details of the guarantee).

3. A special statement and independent opinion on the Group's fund transfer between the Company and connected parties and external guarantees of the Company has been furnished by Independent Directors of the Company, Mr. Zhu Wuxiang, Mr. Chen Shaohua, Mr. Qiao Wenjun, Mr. Mi Zhengkun and Mr. Li Jin, as follows:

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

(2) The Company has strictly complied with the approval procedures in relation to third-party guarantees in accordance with relevant provisions of the Articles of Association. Details of guarantees disclosed in the 2008 interim report are true and the Company has not committed any unlawful acts of guarantee or connected guarantees.

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

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

MATERIAL MATTERS

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

No	Contents of material contracts	Date of disclosure	Newspaper for publication	Performance
1	Framework agreement and business contracts thereunder with Ethiopian Telecommunications Corporation	30 April 2007	China Securities Journal	Under normal progress
2	Commercial contract for the construction of trial network for TD-SCDMA scale network technology application with China Mobile	11 June 2007	Securities Times	Completed
3	Amendment of the 2006–2007 Chip Purchase Framework Agreement signed in April 2006 with QUALCOMM		Shanghai Securities News	Completed
4	Phase II GSM project contract with Ethiopian Telecommunications Corporation	20 September 2007		Under normal progress

(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 shareholders subject to lock-up and lock-up conditions” of this report.

   (2) The aforesaid undertakings were duly performed and there were no violations.

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

MATERIAL MATTERS

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

Nature	Location	Date	Mode	Audience received	Contents of discussion	Materials furnished
Presentation of the Company	Hong Kong	March 2008	2007 annual results presentation	Analysts and investors	2007 annual report	Published announcements and regular reports
	Hong Kong	March 2008	Teleconference	Analysts and investors	Analysts and investors	Published announcements and regular reports
	Shenzhen	March 2008	Analysts' meeting	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	April 2008	Teleconference	Analysts and investors	2008 first quarterly report	Published announcements and regular reports
External meetings	Shenzhen	March 2008	Guotai Junan presentation	Customers of Guotai Junan	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	March 2008	Guangfa Securities presentation	Customers of Guangfa Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	April 2008	Credit Suisse presentation	Customers of Credit Suisse	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	May 2008	Citibank presentation	Customers of Citibank	Day-to-day operations of the Company	Published announcements and regular reports
	Beijing	June 2008	CITIC Securities presentation	Customers of CITIC Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	June 2008	China Jianyin Investment Securities presentation	Customers of China Jianyin Investment Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Overseas investors					
Company visits by analysts	the Company	First half of 2008	On-site visits	Merrill Lynch Securities, Citibank, Lehman Brothers, JPMorgan, Deutsche Bank, Brummer & Partners, Prudential, American Century, Goldman Sachs Gao Hua, TB Alternatives Assets, Acre-asset, Matthews International Capital Management, Treasury Asia, GE Assets Management, UOB Kay Hian, Cantillon, Capital World Investors, Fidelity Assets Management, BOCI, UBS, Indus Capital, Edinburgh Partners, Daiwa Securities, Capital International, Yuanta Securities, Citadel Investment Group	Day-to-day operations of the Company	Published announcements and regular reports

MATERIAL MATTERS

Nature	Location	Date	Mode	Audience received	Contents of discussion	Materials furnished
	Domestic investors					
	the Company	First half of 2008	On-site visits	CICC, BOCI, Guotai Junan, Jiashi Fund, Everbright Securities, Ping An Securities, China Nature Fund, Shanghai Fareast Securities, Runhui Investment, New China Assets Management, Gansu Trust, First Shanghai, Zhonghai Fund, Ping An Assets Management, Guangfa Securities Assets Management, China Merchant Securities, SYWG BNP Paribas, TX Investment Consulting, Invesco Great Wall	Day-to-day operations of the Company	Published announcements and regular reports

(XII) THERE WAS NO REPLACEMENT OR DISMISSAL OF ACCOUNTANT FIRMS 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, DETAINMENT BY JUDICIAL AUTHORITIES OR PROSECUTION FOR CRIMINAL CHARGES, EXAMINATION BY CSRC, ADMINISTRATIVE PENALTY BY CSRC, PROHIBITION FROM PARTICIPATION IN THE SECURITIES MARKET, PUBLIC CENSURE, OPINION OF DEEMED INAPPROPRIATENESS, PUNISHMENT BY OTHER ADMINISTRATIVE AUTHORITIES AND PUBLIC REPRIMAND BY THE SHENZHEN STOCK EXCHANGE

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

Date	Newspaper	Page No	Announcement
25 January 2008	China Securities Journal Shanghai Securities News Securities Times	A19 D6 C9	Announcement on online roadshow for the issue of warrants and bonds cum warrants
25 January 2008	China Securities Journal Shanghai Securities News Securities Times	A20 D6 C9	Announcement on the issue of warrants and bonds cum warrants
25 January 2008	China Securities Journal Shanghai Securities News Securities Times	A19-A20 D6-D7 C9-C10	Summary of prospectus of the Company's issue of warrants and bonds cum warrants
28 January 2008	China Securities Journal Shanghai Securities News Securities Times	A16 A17 C12	Announcement on predicted growth in the Company's results
30 January 2008	China Securities Journal Shanghai Securities News Securities Times	A20 D6 A5	Indicative announcement on the issue of warrants and bonds cum warrants

MATERIAL MATTERS

Date	Newspaper	Page No	Announcement
4 February 2008	China Securities Journal Shanghai Securities News Securities Times	A09 A9 C8	Announcement on bond interest rate of bonds cum warrants, offline allocation results and online allotment results
5 February 2008	China Securities Journal Shanghai Securities News Securities Times	A04 D6 A4	Announcement on online allotment results for subscription of bonds cum warrants
20 February 2008	China Securities Journal Shanghai Securities News Securities Times	A14 D6 C3	Announcement on the listing of the Company's warrants
20 February 2008	China Securities Journal Shanghai Securities News Securities Times	A14 D6 C3	Announcement on the listing of the Company's bonds
22 February 2008	China Securities Journal Shanghai Securities News Securities Times	A05 Cover6 A5	Indicative announcement on the listing and trading of bonds (中興債1) and warrants (中興ZXC1) from the bonds cum warrants issue
29 February 2008	China Securities Journal Shanghai Securities News Securities Times	D005 D40 C12	Announcement on the agreement for tripartite supervision of issue proceeds
14 March 2008	China Securities Journal Shanghai Securities News Securities Times	B08 D24 C21	Announcement on the replacement of internal funds previously invested in issue proceed projects with issue proceeds received from the bonds cum warrants
14 March 2008	China Securities Journal Shanghai Securities News Securities Times	B08 D24 C21	Announcement on resolutions passed at the 7th meeting of the 4th session of the Supervisory Committee
14 March 2008	China Securities Journal Shanghai Securities News Securities Times	B08 D24 C21	Announcement on resolutions passed at the 12th meeting of the 4th session of the Board of the Directors
20 March 2008	China Securities Journal Shanghai Securities News Securities Times	D039 D25 C9	Announcement on resolutions passed at the 13th meeting of the 4th session of the Board of the Directors
20 March 2008	China Securities Journal Shanghai Securities News Securities Times	D039 D26 C12	Announcement on resolutions passed at the 8th meeting of the 4th session of the Supervisory Committee
20 March 2008	China Securities Journal Shanghai Securities News Securities Times	D037-D038 D25-D26 C9-C10	2007 annual report summary

MATERIAL MATTERS

Date	Newspaper	Page No	Announcement
20 March 2008	China Securities Journal Shanghai Securities News Securities Times	D039 D25 C11	Announcement regarding ongoing connected transactions 2008 (as defined in the Rules Governing the Listing of Stocks on Shenzhen Stock Exchange)
20 March 2008	China Securities Journal Shanghai Securities News Securities Times	D039 D25 C11	Announcement on connected transactions
20 March 2008	China Securities Journal Shanghai Securities News Securities Times	D039 D26 C12	Notice of the 2007 annual general meeting
25 April 2008	China Securities Journal Shanghai Securities News Securities Times	D019 D8 C56	Announcement of resolutions passed at the 14th meeting of the 4th session of the Board of the Directors
25 April 2008	China Securities Journal Shanghai Securities News Securities Times	D019 D8 C56	First quarterly report 2008
25 April 2008	China Securities Journal Shanghai Securities News Securities Times	D019 D8 C56	Announcement of resolutions passed at the 9th meeting of the 4th session of the Supervisory Committee
10 May 2008	China Securities Journal Shanghai Securities News Securities Times	C005 24 C7	Indicative announcement on the convening of the 2007 annual general meeting
15 May 2008	China Securities Journal Shanghai Securities News Securities Times	C05 D8 C14	Announcement on the progress of connected transactions
28 May 2008	China Securities Journal Shanghai Securities News Securities Times	D012 D16 C10	Announcement in respect of resolutions of 2007 annual general meeting
4 July 2008	China Securities Journal Shanghai Securities News Securities Times	C12 Cover14 A11	Announcement of profit distribution and capitalisation from capital reserves for 2007
10 July 2008	China Securities Journal Shanghai Securities News Securities Times	A12 C8 D12	Announcement on the exercise price and proportion of 中興 ZXC1 warrants
16 July 2008	China Securities Journal Shanghai Securities News Securities Times	A13 C13 D8	Announcement on the change of sponsor representative
18 July 2008	China Securities Journal Shanghai Securities News Securities Times	D004 C33 D16	Announcement of resolutions passed at the 15th meeting of the 4th session of the Board of the Directors

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

CONSOLIDATED BALANCE SHEET

(Prepared under PRC ASBEs)
Unit: RMB'000

	Note VI	30 June 2008 (Unaudited)	31 December 2007 (Audited) (Restated)
Assets			
Current assets:			
Cash in bank and on hand	1	**7,704,779**	6,483,170
Derivative financial assets	2	**76,993**	123,644
Bills receivable	3	**2,202,896**	1,656,258
Trade receivables	4	**9,281,462**	7,098,949
Factored trade receivables	4	**153,922**	153,668
Prepayments	5	**356,556**	311,362
Other receivables	6	**662,359**	689,889
Inventories	7	**4,982,210**	5,363,430
Amounts due from customers for contract work	8	**10,800,623**	8,606,291
Total current assets		**36,221,800**	30,486,661
Non-current assets:			
Available-for-sale financial assets	9	**43,464**	43,464
Long-term trade receivables	10	**581,413**	581,007
Factored long-term trade receivables	10	**2,875,777**	3,142,709
Long-term equity investment	11	**151,814**	137,019
Fixed assets	12	**3,508,293**	3,038,063
Construction in progress	13	**1,198,831**	931,090
Intangible assets	14	**171,321**	224,848
Development costs	15	**368,345**	258,991
Deferred tax assets	16	**392,792**	352,210
Long-term deferred assets	17	**30,172**	33,494
Total non-current assets		**9,322,222**	8,742,895
Total assets		**45,544,022**	39,229,556

Notes on page 216 to Page 311 form an integral part of these financial statements.

The financial statements on page 202 to 215 have been signed by:

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

CONSOLIDATED BALANCE SHEET (Continued)

(Prepared under PRC ASBEs)
Unit: RMB'000

	Note VI	30 June 2008 (Unaudited)	31 December 2007 (Audited) (Restated)
Liabilities and shareholders' equity			
Current liabilities:			
Short-term loans	19	**4,677,405**	2,893,855
Bank advances on factored trade receivables	4	**153,922**	153,668
Derivative financial liabilities		**30,859**	7,876
Bills payable	21	**3,927,848**	3,946,429
Trade payables	22	**8,017,361**	7,856,240
Amount due to customers for contract work	8	**901,888**	1,597,314
Advances from customers	23	**2,722,159**	1,491,219
Salary and welfare payables	24	**975,308**	1,241,839
Taxes payable	25	**(1,279,627)**	(1,342,330)
Dividend payable	26	**299,004**	41,180
Other payables and accruals	28	**1,377,380**	1,314,057
Deferred income		**69,882**	101,695
Provision	27	**131,463**	126,042
Non-current loans due within one year	29	**1,303,317**	1,509,569
Total current liabilities		**23,308,169**	20,938,653
Non-current liabilities:			
Long-term loans	30	**1,813,701**	2,085,229
Bank advances on factored long-term trade receivables	10	**2,875,777**	3,142,709
Financial guarantee contracts	20	**3,689**	3,689
Provision for retirement benefits		**34,408**	34,408
Bonds payable	31	**3,426,855**	—
Deferred tax liabilities	32	**130,765**	56,460
Specific payables	33	**80,000**	80,000
Total non-current liabilities		**8,365,195**	5,402,495
Total liabilities		**31,673,364**	26,341,148
Shareholders' equity:			
Share capital	34	**959,522**	959,522
Capital reserves	35	**6,424,998**	5,807,332
Surplus reserves	36	**1,407,299**	1,364,758
Retained profits	37	**4,346,076**	3,831,231
Proposed final dividend	37	**—**	239,880
Exchange differences		**(86,304)**	(65,562)
Total shareholders' equity attributable to the parent company		**13,051,591**	12,137,161
Minority interests	38	**819,067**	751,247
Total shareholders' equity		**13,870,658**	12,888,408
Total liabilities and shareholders' equity		**45,544,022**	39,229,556

Notes on page 216 to Page 311 form an integral part of these financial statements.

The financial statements on page 202 to 215 have been signed by:

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

* Deferred tax assets and deferred tax liabilities have been separately presented.

CONSOLIDATED INCOME STATEMENT

(Prepared under PRC ASBEs)
Unit: RMB'000

		Note VI	**Six months ended 30 June 2008 (Unaudited)**	Six months ended 30 June 2007 (Unaudited) (Restated)
I.	**Operating revenue**	39	**19,728,984**	15,231,932
	Less: Operating costs	39	**13,102,213**	9,678,382
	Taxes and surcharges	40	**149,116**	117,254
	Selling and distribution costs		**2,616,839**	2,418,877
	Administrative expenses		**1,130,733**	958,901
	Research and development costs	15	**1,647,898**	1,521,489
	Finance costs	41	**401,878**	190,368
	Impairment losses	42	**199,458**	95,920
	Add: Fair value gains/losses	43	**(69,633)**	24,811
	Investment income	44	**51,706**	8,766
	Including: Share of profits and Losses of associated and jointly-controlled entities		**9,874**	1,018
II.	**Operating profit**		**462,922**	284,318
	Add: Non-operating income	45	**435,544**	374,744
	Less: Non-operating expenses	45	**29,824**	48,211
	Including: Profit/loss on disposal of non-current assets		**3,459**	5,683
III.	**Total profit**		**868,642**	610,851
	Less: Income tax	46	**199,216**	55,444
IV.	**Net profit attributable to:**		**669,426**	555,407
	Equity holders of the parent Company		**557,386**	459,840
	Minority interests		**112,040**	95,567
V.	**Earnings per share**	47		
	(I) Basic		**RMB0.41**	RMB0.34
	(II) Diluted		**RMB0.41**	RMB0.34

Notes on page 216 to Page 311 form an integral part of these financial statements.

The financial statements on page 202 to 215 have been signed by:

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

* Earnings per share for the period ended 30 June 2007 have been restated on the basis of the adjusted number of shares of the Company following the increase in share capital by way of capitalisation of capital reserves implemented on 10 July 2008.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared under PRC ASBEs)
Unit: RMB'000

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

Notes on page 216 to Page 311 form an integral part of these financial statements.

The financial statements on page 202 to 215 have been signed by:

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

(Prepared under PRC ASBEs)
Unit: RMB'000

	Six months ended 30 June 2007								
	Equity attributable to equity holders of the parent								
	Share capital	Capital reserves	Surplus reserves	Retained profits	Proposed final dividend	Foreign currency translation differences	Sub-total	Minority interests	Total shareholders' equity
I Opening balance of current period	959,522	5,509,664	1,331,059	2,852,652	143,928	(32,880)	10,763,945	561,892	11,325,837
II. Changes in current period									
(1) Net profit	–	–	–	459,840	–	–	459,840	95,567	555,407
(2) Gains/(losses) recognised directly in equity									
1. Net gains/(losses) from change in fair values of available-for-sale financial assets	–	–	–	–	–	–	–	–	–
2. Effect of changes of other equity holders' interest in invested entities by equity method	–	–	–	–	–	–	–	–	–
3. Related income tax effect of item recognised in equity	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	(8,264)	(8,264)	–	(8,264)
Sub-total of (1) and (2)	–	–	–	459,840	–	(8,264)	451,576	95,567	547,143
(3) Capital injection from shareholders and reduction in capital									
1. Capital injection from shareholders	–	–	–	–	–	–	–	9,565	9,565
2. Equity settled share expense	–	148,834	–	–	–	–	148,834	–	148,834
3. Issue of bonds cum warrants	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–
(4) Profit appropriation									
1. Appropriation to surplus reserves	–	–	–	–	–	–	–	–	–
2. Distribution to shareholders	–	–	–	–	(143,928)	–	(143,928)	(3,598)	(147,526)
3. Proposal final dividend	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–
(5) Transfer of shareholders' equity									
1. Transfer of capital reserve to share capital	–	–	–	–	–	–	–	–	–
2. Transfer of surplus reserves to share capital	–	–	–	–	–	–	–	–	–
3. Surplus reserves making up of losses	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–
III. Balance as at 30 June 2007	959,522	5,658,498	1,331,059	3,312,492	–	(41,144)	11,220,427	663,426	11,883,853

Notes on page 216 to Page 311 form an integral part of these financial statements.

The financial statements on page 202 to 215 have been signed by:

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

CONSOLIDATED CASH FLOW STATEMENT

(Prepared under PRC ASBEs)
Unit: RMB'000

		Note VI	Six months ended 30 June 2008 (Unaudited)	Six months ended 30 June 2007 (Unaudited) (Restated)
I.	**Cash flow from operating activities**			
	Cash received from sales of goods or rendering services		**16,396,543**	13,121,717
	Cash received from taxes returned		**1,386,756**	1,012,729
	Cash received relating to other operating activities	48	**88,165**	56,064
	Sub-total of cash inflow from operating activities		**17,871,464**	14,190,510
	Cash paid for goods and services		**14,324,030**	8,463,171
	Cash paid to and on behalf of employees		**3,282,379**	2,750,464
	Payments of taxes and levies		**909,679**	835,485
	Cash paid relating to other operating activities	48	**2,506,581**	2,301,863
	Sub-total of cash outflow from operating activities		**21,022,669**	14,350,983
	Net cash flows from operating activities	49	**(3,151,205)**	(160,473)
II.	**Cash flows from investing activities**			
	Cash received from sale of investments		**–**	18,067
	Cash received from gains of investment		**66,418**	32,609
	Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**3,930**	1,867
	Sub-total of cash inflow from investing activities		**70,348**	52,543
	Cash paid to acquire fixed asset, intangible assets and other long-term assets		**687,424**	768,990
	Cash paid for investment		**5,426**	4,113
	Sub-total of cash outflow from investing activities		**692,850**	773,103
	Net cash flow from investing activities		**(622,502)**	(720,560)

CONSOLIDATED CASH FLOW STATEMENT (Continued)

(Prepared under PRC ASBEs)
Unit: RMB'000

	Note VI	**Six months ended 30 June 2008 (Unaudited)**	Six months ended 30 June 2007 (Unaudited) (Restated)
III. Cash flows from financing activities			
Cash received from investments		**—**	503,283
Cash received from borrowings		**4,313,005**	2,658,327
Cash received from the issue of bonds cum warrants		**3,961,443**	—
Sub-total of cash inflow from financing activities		**8,274,448**	3,161,610
Cash paid for debt repayment		**3,007,235**	811,943
Cash paid in dividend distribution or interest repayment		**277,157**	117,963
Sub-total of cash outflow from financing activities		**3,284,392**	929,906
Net cash flow from financing activities		**4,990,056**	2,231,704
IV. Effect of foreign exchange rate changes on cash and cash equivalents		**52,783**	(3,189)
V. Net increase in cash and cash equivalents		**1,269,132**	1,347,482
Add: Opening balance of cash and cash equivalents		**6,309,749**	4,142,063
VI. Closing balance of cash and cash equivalents	50	**7,578,881**	5,489,545

Notes on page 216 to Page 311 form an integral part of these financial statements.

The financial statements on page 202 to 215 have been signed by:

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

BALANCE SHEET

(Prepared under PRC ASBEs)
Unit: RMB'000

	Note VI	30 June 2008 (Unaudited)	31 December 2007 (Audited) (Restated)
Assets			
Current assets:			
Cash in bank and on hand		**5,557,817**	4,640,149
Derivative financial assets		**76,993**	123,644
Bills receivable		**2,115,284**	1,599,250
Trade receivables	4	**10,730,929**	8,945,606
Factored trade receivables	4	**278,922**	278,668
Prepayments		**64,491**	85,165
Dividend receivable		**396,076**	184,589
Other receivables	6	**1,345,108**	1,489,362
Inventories		**1,441,317**	1,443,814
Amounts due from customers for contract work		**11,230,234**	8,216,361
Total current assets		**33,237,171**	27,006,608
Non-current assets:			
Available-for-sale financial assets	9	**41,464**	41,464
Long-term trade receivables	10	**399,264**	401,715
Factored long-term trade receivables	10	**3,254,399**	3,142,709
Long-term equity investment	11	**550,622**	547,970
Fixed assets		**2,334,695**	1,878,330
Construction in progress		**685,120**	817,787
Intangible assets		**68,336**	78,398
Development costs		**147,285**	127,624
Deferred tax assets		**326,342**	280,621
Total non-current assets		**7,807,527**	7,316,618
Total assets		**41,044,698**	34,323,226

Notes on page 216 to Page 311 form an integral part of these financial statements.

The financial statements on page 202 to 215 have been signed by:

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

BALANCE SHEET (Continued)

(Prepared under PRC ASBEs)
Unit: RMB'000

	Note VI	**30 June 2008 (Unaudited)**	31 December 2007 (Audited) (Restated)
Liabilities and shareholders' equity			
Current liabilities:			
Short-term loans		**3,688,683**	2,535,673
Bank advances on factored trade receivables	4	**278,922**	278,668
Derivative financial liabilities		**30,859**	—
Bills payable	21	**3,996,688**	3,818,010
Trade payables	22	**9,564,585**	8,616,400
Amount due to customers for contract work		**710,819**	472,653
Advances from customers		**2,303,618**	1,502,276
Salary and welfare payables		**465,229**	551,215
Taxes payable		**(1,431,557)**	(1,056,962)
Dividend payable		**239,880**	500
Other payables and accruals		**2,841,131**	2,643,437
Deferred income		**10,829**	21,695
Provision		**76,409**	78,463
Non-current loans due within one year		**1,302,887**	1,509,569
Total current liabilities		**24,078,982**	20,971,597
Non-current liabilities:			
Long-term loans		**480,137**	911,322
Bank advances on factored long-term trade receivables	10	**3,254,399**	3,142,709
Financial guarantee contracts		**3,689**	3,689
Provision for retirement benefits		**34,408**	34,408
Bonds payable		**3,426,855**	—
Deferred tax liabilities		**130,241**	24,214
Specific payables		**80,000**	80,000
Total non-current liabilities		**7,409,729**	4,196,342
Total liabilities		**31,488,711**	25,167,939
Shareholders' equity:			
Share capital		**959,522**	959,522
Capital reserves		**6,389,727**	5,772,061
Surplus reserves		**769,603**	769,603
Retained profits		**1,445,248**	1,417,872
Proposed final dividend		**—**	239,880
Exchange differences		**(8,113)**	(3,651)
Total shareholders' equity		**9,555,987**	9,155,287
Total liabilities and shareholders' equity		**41,044,698**	34,323,226

Notes on page 216 to Page 311 form an integral part of these financial statements.

The financial statements on page 202 to 215 have been signed by:

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

* Deferred tax assets and deferred tax liabilities have been separately presented.

INCOME STATEMENT

(Prepared under PRC ASBEs)
Unit: RMB'000

		Note VI	Six months ended 30 June 2008 (Unaudited)	Six months ended 30 June 2007 (Unaudited)
I.	**Operating revenue**	39	**17,288,907**	14,604,842
	Less: Operating costs	39	**14,795,021**	12,210,009
	Taxes and surcharges		**21,786**	17,189
	Selling and distribution costs		**1,928,474**	1,631,800
	Administrative expenses		**618,361**	589,820
	Research and development costs		**352,214**	570,543
	Finance costs		**565,193**	236,433
	Impairment losses		**109,702**	30,785
	Add: Fair value gains/losses		**(77,508)**	24,811
	Investment income	44	**1,224,353**	678,680
	Including: Share of profits and Losses of associated and jointly-controlled entities		**2,652**	1,018
II.	**Operating profit**		**45,001**	21,754
	Add: Non-operating income		**42,135**	37,111
	Less: Non-operating expenses		**19,915**	42,719
	Including: Profit/loss on disposal of non-current assets		**2,152**	2,151
III.	**Total profit**		**67,221**	16,146
	Less: Income tax		**39,845**	—
IV.	**Net profit**		**27,376**	16,146
V.	**Earnings per share**			
	(I) Basic		**RMB0.02**	RMB0.01
	(II) Diluted		**RMB0.02**	RMB0.01

Notes on page 216 to Page 311 form an integral part of these financial statements.

The financial statements on page 202 to 215 have been signed by:

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

STATEMENT OF CHANGES IN EQUITY

(Prepared under PRC ASBEs)
Unit: RMB'000

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

Notes on page 216 to Page 311 form an integral part of these financial statements.

The financial statements on page 202 to 215 have been signed by:

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

STATEMENT OF CHANGES IN EQUITY (Continued)

(Prepared under PRC ASBEs)
Unit: RMB'000

	Six months ended 30 June 2007						
	Share capital	Capital reserves	Surplus reserves	Retained profits	Proposed final dividend	Foreign currency translation differences	Total shareholders' equity
I Opening balance of current period	959,522	5,474,393	769,603	1,632,417	143,928	(1,493)	8,978,370
II. Changes in current period							
(1) Net profit	–	–	–	16,146	–	–	16,146
(2) Gains/(losses) recognised directly in equity							
1. Net gains/(losses) from change in fair values of available-for-sale financial assets	–	–	–	–	–	–	–
2. Effect of changes of other equity holders' interest in invested entities by equity method	–	–	–	–	–	–	–
3. Related income tax effect of item recognised in equity	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	(579)	(579)
Sub-total of (1) and (2)	–	–	–	16,146	–	(579)	15,567
(3) Capital injection from shareholders and reduction in capital							
1. Capital injection from shareholders	–	–	–	–	–	–	–
2. Equity settled share expense	–	148,834	–	–	–	–	148,834
3. Issue of bonds cum warrants	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–
(4) Profit appropriation							
1. Appropriation to surplus reserves	–	–	–	–	–	–	–
2. Distribution to shareholders	–	–	–	–	(143,928)	–	(143,928)
3. Proposal final dividend	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–
(5) Transfer of shareholders' equity							
1. Transfer of capital reserve to share capital	–	–	–	–	–	–	–
2. Transfer of surplus reserves to share capital	–	–	–	–	–	–	–
3. Surplus reserves making up of losses	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–
III. Balance as at 30 June 2007	959,522	5,623,227	769,603	1,648,563	–	(2,072)	8,998,843

Notes on page 216 to Page 311 form an integral part of these financial statements.

The financial statements on page 202 to 215 have been signed by:

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

CASH FLOW STATEMENT

(Prepared under PRC ASBEs)
Unit: RMB'000

		Six months ended 30 June 2008 (Unaudited)	Six months ended 30 June 2007 (Unaudited) (Restated)
I.	**Cash flow from operating activities**		
	Cash received from sales of goods or rendering services	**14,435,600**	11,800,537
	Cash received from taxes returned	**956,566**	745,943
	Cash received relating to other operating activities	**60,571**	41,033
	Sub-total of cash inflow from operating activities	**15,452,737**	12,587,513
	Cash paid for goods and services	**15,694,416**	9,848,361
	Cash paid to and on behalf of employees	**997,689**	1,120,386
	Payments of taxes and levies	**94,069**	73,003
	Cash paid relating to other operating activities	**1,492,251**	1,279,259
	Sub-total of cash outflow from operating activities	**18,278,425**	12,321,009
	Net cash flows from operating activities	**(2,825,688)**	266,504
II.	**Cash flows from investing activities**		
	Cash received from sale of investments	**—**	1,844
	Cash received from gains of investment	**50,641**	6,295
	Sub-total of cash inflow from investing activities	**50,641**	8,139
	Cash paid to acquire fixed asset, intangible assets and other long-term assets	**616,417**	636,022
	Cash paid for investment	**—**	1,551
	Sub-total of cash outflow from investing activities	**616,417**	637,573
	Net cash flow from investing activities	**(565,776)**	(629,434)

CASH FLOW STATEMENT (Continued)

(Prepared under PRC ASBEs)
Unit: RMB'000

		Six months ended 30 June 2008 (Unaudited)	Six months ended 30 June 2007 (Unaudited) (Restated)
III.	**Cash flows from financing activities**		
	Cash received from investments	—	493,718
	Cash received from borrowings	3,348,161	1,993,116
	Cash received from the issue of bonds cum warrants	3,961,443	—
	Sub-total of cash inflow from financing activities	7,309,604	2,486,834
	Cash paid for debt repayment	2,833,018	765,166
	Cash paid in dividend distribution or interest repayment	222,170	95,490
	Sub-total of cash outflow from financing activities	3,055,188	860,656
	Net cash flow from financing activities	4,254,416	1,626,178
IV.	**Effect of foreign exchange rate changes on cash and cash equivalents**	87,918	(3,106)
V.	**Net increase in cash and cash equivalents**	950,870	1,260,142
	Add: Opening balance of cash and cash equivalents	4,604,365	2,922,719
VI.	**Closing balance of cash and cash equivalents**	5,555,235	4,182,861

Notes on page 216 to Page 311 form an integral part of these financial statements.

The financial statements on page 202 to 215 have been signed by:

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

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

NOTES TO FINANCIAL STATEMENTS

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

I. CORPORATE BACKGROUND

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

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

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 (collectively the "Group") mainly engaged in production of remote control switch systems, multimedia communications systems and communications transmission systems; provision of technical design, development, consultation and related services for the research and manufacture and production of mobile communications systems equipment, satellite communications, microwave communications equipment, beepers, computer hardware and software, closed-circuit TVs, microwave communications, automated signal control, computer information processing, process monitoring systems, fire alarm systems; provision of technical design, development, consultation and related services for wireline and wireless communications projects of railways, mass transit railways, urban rail transit, highways, plants and mines, ports and terminals and airports (excluding restricted projects); purchase and sale of electronics devices, micro-electronics components (excluding franchised, state-controlled and 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 labors and workers for carrying out the aforesaid projects outside the PRC; technical development and sale of electronics systems equipment (excluding restricted items and franchised, state-controlled and 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); specialised sub-contracting of telecommunications projects.

NOTES TO FINANCIAL STATEMENTS

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

I. CORPORATE BACKGROUND (Continued)

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

On 28 December 2005, the share reform plan of the Company was formally implemented and completed. On the first trading day subsequent to the implementation of the share reform plan, all original non-tradable shares held by non-tradable shareholders of the Company obtained the right of listing and circulation. As at 30 June 2008, the total accumulated share capital in issue of the Company was 959,521,650 shares. Please see Note VI. 34 for details.

II. BASIS OF PREPARATION AND STATEMENT OF ASBE COMPLIANCE

The financial statements are prepared in accordance with the Accounting Standards for Business Enterprises (referred to as "ASBEs", including basic standard, specific standards, implementation guidelines and other relevant regulations) which were promulgated by the Ministry of Finance of the PRC (the "MOF") in 2006.

The Company has been listed in Hong Kong Stock Exchange since 9 December 2004, and has been preparing financial statements under Hong Kong Financial Reporting Standards.

The financial statements truly and completely reflect the financial position on 30 June 2008 and the operating results and cash flow of the Company and the Group for the first six months of 2008.

The financial statements are prepared on a going concern basis.

III. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS

The financial information set out in the financial statements for the half year of 2008 was prepared in accordance with the following principal accounting policies and accounting estimates which were proposed in accordance with ASBEs.

1. Financial year

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

2. Reporting currency

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

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

NOTES TO FINANCIAL STATEMENTS

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

III. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (Continued)

3. Basis of accounting and measurement basis

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

4. Business combination

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

Business combinations involving entities under common control

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

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

Any costs directly attributable to the combination are recognised as expenses in the current profit and loss when incurred by the absorbing party.

Business combinations not involving entities under common control

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

The cost of a business combination is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree plus any costs directly attributable to the business combination. When the business combination is achieved in stage, the cost of the combination is the aggregate cost of the individual transactions. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the acquirer shall include the amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably.

NOTES TO FINANCIAL STATEMENTS

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

III. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (Continued)

4. Business combination (Continued)

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

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

5. Consolidated financial statements

The consolidation scope for consolidated financial statement is determined based on the concept of control, including the Company and all subsidiaries' financial statements as at 30 June 2008. Subsidiaries are those entities which the Company has control over.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All significant intra-group transactions and balances are eliminated in consolidation.

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

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

For subsidiaries obtained through a business combination involving entities under common control, the operating result and cash flow of the party being absorbed will be recognised in consolidated financial statement from the beginning of the period during which the combination occurs.

6. Cash equivalents

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

NOTES TO FINANCIAL STATEMENTS

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

III. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (Continued)

7. Foreign currency translation

Foreign currency transaction

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

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

Translation of foreign operations

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

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

NOTES TO FINANCIAL STATEMENTS

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

III. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (Continued)

8. Inventories

Inventories include raw materials, materials sub-contracted for processing, work-in-progress and finished goods. 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. Inventories' costs include purchasing costs, processing costs and other costs.

Actual costs of goods delivered are recognised using the weighted moving average method.

Inventories are valued using the perpetual inventories system.

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

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

9. Construction contract works

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

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

III. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (Continued)

10. Long-term investments

Long-term equity investments include investments in subsidiaries, joint ventures and associates. Long-term equity investments were recorded at initial investment cost on acquisition.

The cost method is used when the Group controls the invested enterprise or when the Group does not jointly control or have significant influence over the invested enterprise, and the long term equity investments are not quoted in active markets, and have no reliably measurable fair values.

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

The equity method is used to account for long-term equity investments when the Company can jointly control or has significant influence over the invested entity.

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

Under the equity method, after the long-term equity investments are acquired, investment gains or losses are recognised and the carrying amount of the long-term equity investment is adjusted to reflect the Company's share of the investee's net profit or loss. When recognising the Company's share of the net profit or loss of the investees, the Group makes adjustments based on fair values of the investees' identifiable assets and liabilities at the acquisition date and in accordance with the Group's accounting policy and accounting period to investee's net profits which also eliminates profit or loss from inter-transactions with associates and joint ventures attributed to investor which is calculated pro rata on the basis of share percentage (for loss from inter-transactions belonging to impairment loss, it shall be fully recognised). Net profit of the investee is recognised after adjustments. For long term equity investment in associates and jointly-controlled entities held prior to the date of first-time implementation, any difference in equity investment relating to such investment amortised on a straight line basis over the remaining period should be deducted and recognised as investment profit or loss. When the invested enterprise declares profit appropriations or cash dividends, the carrying amount of investment is adjusted down by the Company's share of the profit appropriations and dividends. The Company shall discontinue recognising its share of the losses of the investee after the long-term equity investment together with any long-term interests that in substance forms part of the Company's net investment in the investee are reduced to zero, except to the extent that the Company has incurred obligations to assume additional losses. The Company also adjusts the carrying amount of long-term equity investments for other changes in owner's equity of the investees (other than net profits or losses), and includes the corresponding adjustment in equity.

On disposal of the long-term equity investments, the difference between book value and market price is recognised in profit or loss for the current period.

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III. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (Continued)

11. Fixed assets

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

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

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

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

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

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

12. Construction in progress

Construction-in-progress is measured at the actual construction expenditure, including necessary project expenses, borrowing costs capitalised prior to attaining the state of intended use and other related fees during the construction period.

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

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III. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (Continued)

13. Intangible assets

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

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

Useful life of respective intangible assets is as follows:

	Useful lives
Software	5 years
Technology know-how	10 years
Land use rights	50 years
Operating concession	20 years

The Group accounts for land use rights purchased or otherwise acquired by way of paying land use fees as intangible assets.

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

14. Research and development costs

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

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

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits (including proof of market for products manufactured using such intangible asset and market for such intangible asset itself), usefulness of the intangible asset in case of internal use, the availability of technological, financial and other resources to complete the project, the ability to use or market such intangible asset and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Corresponding projects in the Group are formed when they meet the above condition technical feasibility and economic feasibility studies. Then, those projects are progressed into the development phase.

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III. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (Continued)

15. Financial instruments

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

Recognition and derecognition of financial instruments

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

A financial asset is derecognised when one of the following criteria is met:

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

2) The financial asset has been transferred, and met the following derecognition criteria for financial asset transfer.

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

Classification and valuation of financial assets

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise held-for-trading financial assets and those designated at fair value through profit or loss at inception. Financial assets are classified as held-for-trading if they satisfy one of the following conditions: (1) they are acquired or incurred principally for the purpose of selling or repurchasing in the near term; (2) they are part of a portfolio of identified financial instruments that are managed together, and for which there is objective evidence of a recent pattern of short-term profit taking; (3) they are derivative financial instruments. These financial assets are subsequently measured at fair value, and all gains or losses (realised or unrealised) are recognised in current period's profit and loss.

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III. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (Continued)

15. Financial instruments (Continued)

Classification and valuation of financial assets *(Continued)*

Loans and receivables

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

Available-for-sale financial assets

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

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

Classification and valuation of financial liabilities

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise held-for-trading financial liabilities and those designated at fair value through profit or loss at inception. Financial liabilities are classified as held-for-trading if they satisfy one of the following conditions: (1) they are acquired or incurred principally for the purpose of selling or repurchasing in the near term; (2) they are part of a portfolio of identified financial instruments that are managed together, and for which there is objective evidence of a recent pattern of short-term profit taking; (3) they are derivative financial instruments. These financial liabilities are subsequently measured at fair value, and gain or loss (realised or unrealised) from changes in fair value and derecognition are recognised in current period's profit and loss.

Other financial liabilities

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

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III. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (Continued)

15. Financial instruments (Continued)

Classification and valuation of financial liabilities *(Continued)*

Bonds cum warrants

The component of Bonds cum warrants that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of Bonds cum warrants, the fair value of the liability component is determined using a market rate for an equivalent bond without the detachable warrants; and this amount is carried as a long term liability on the amortised cost basis until redemption. The remainder of the proceeds is allocated to the detachable share purchase warrants that are recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the detachable share purchase warrants is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the Bonds cum warrants based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Financial guarantee contracts

Financial guarantee contracts are initially recognised at fair value. Financial guarantee contracts not classified as financial liabilities designated at fair value through profit or loss, after initial recognition, are subsequently measured at the higher of the amount of the estimated liabilities recognised in accordance with "ASBE No. 13 — Contingences" and the initial amount less accumulated amortisation recognised in accordance with "ASBE No. 14 — Revenue".

Derivative financial instruments

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

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

The fair value of financial instruments

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

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III. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (Continued)

15. Financial instruments (Continued)

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

Assets carried at cost

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

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

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III. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (Continued)

15. Financial instruments (Continued)

Impairment of financial assets *(Continued)*

Available-for-sale financial assets

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

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

Derecognition of financial assets

Derecognition of financial assets represents that the Group had transferred or sold the financial assets to another party other than the issuer (transferee).

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

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

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III. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (Continued)

16. Borrowing costs

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

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

Capitalisation of borrowing costs begins where:

— Capital expenditure has already happened;

— Borrowing expenses has already incurred;

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

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

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

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

— Where funds are part of a general pool, the eligible amount is determined by multiplying the weighted average amount of accumulated asset expenditure in excess of the specific loans by the weighted average interest rate applicable to the general pool.

Borrowing costs should cease to be capitalised in the event of abnormal suspension of the purchase, construction or production of assets qualified for capitalisation for over 3 months, other than normal suspension required for bringing the asset to the conditions for intended use or sale. Borrowing costs incurred during such period should be recognised as expenses in the current profit and loss until the purchase, construction or production resumes.

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17. Impairment of assets

For assets other than inventories, deferred tax assets, financial assets and long term equity investments under the cost method that are not quoted in an active market and whose fair value could not be reliably measured, the Group uses the following method to assess their impairment:

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

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

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

Previously recorded impairment losses for goodwill are not reversed in subsequent periods.

18. 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;

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

— the obligation could be reliably measured.

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

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III. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (Continued)

19. Revenue

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

Revenue from the sale of goods

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

Revenue from the rendering of services

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

Revenue from the construction of telecommunications systems projects

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

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

20. Operating leases

Rental expenditure under operating leases are charged to relevant asset costs or the current profit and loss on the straight-line basis over the lease terms.

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III. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (Continued)

21. Employee benefits

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

Defined contribution pension scheme

Employees of the Group participated in contribution pension scheme managed by the local government, including pension scheme, medical insurance, unemployment insurance and housing fund, the contributions payable are charged as an expense to the income statement as incurred.

Defined benefits pension scheme

The Group provides certain employees, who joined the Group before 1 January 2002, with post-retirement monthly pension payments. The cost of providing these benefits under the Group's defined benefits pension scheme is actuarially determined and recognised over the employees' service period by using the projected unit credit method. The Group makes monthly pension payments to eligible retirees and there have been no assets in respect of this scheme since the commencement of the defined benefits pension scheme. Therefore, no estimates on the return of assets are required.

Share incentive scheme

The Company operates a share incentive scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the operations of the Group. Employees (including directors) of the Group receive part of their remuneration in the form of equity instruments of the Company in consideration for the services they provide.

The cost of the share incentive scheme is measured by reference to the fair value at the date at which the rights are granted. The fair value is determined by an external valuer using an appropriate pricing model. In valuation, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions").

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

For a share incentive scheme that adopts certain performance benchmarks as vesting conditions, the effect of the market conditions should be considered when determining its fair value. Services rendered should be recognised so long as an employee has fulfilled other non-market conditions.

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III. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (Continued)

21. Employee benefits (Continued)

Share incentive scheme (Continued)

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

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

The dilution effect of the share incentive scheme is reflected in the additional shares adopted in the calculation of diluted earnings per share.

22. Income tax

Income taxes include current and deferred tax. Income taxes are recognised in current period's profit and loss as income tax expense or income except for those relating to transactions or events directly charged to the owners' equity, in which case they should also be charged to the owners' equity.

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

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

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

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (Continued)

22. Income tax (Continued)

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

1) the said transaction is not corporate merger and affects neither the profit nor the taxable income;

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

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

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

23. Government grants

Government grants mainly represented refunds of VAT and contributions to development fund, as well as financial subsidy for new products. Government grants are recognised at their fair value where all attaching conditions are complied with and the grant is received. When the grant is applied to make up expenses or losses incurred, the amount of grant received or to be received is recognised in the current profit and loss. When the amount of grant is used to make up expenses or losses incurred in subsequent period or is otherwise related to assets, the amount of grant received or to be received should be recorded as deferred income in the current profit and loss and equally allocated over the period in which the expense is recognised or the useful life of the asset.

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III. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (Continued)

24. Significant accounting judgements and estimates

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Revenue recognition

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

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

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

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (Continued)

24. Significant accounting judgements and estimates (Continued)

Judgements *(Continued)*

Revenue recognition (Continued)

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (Continued)

24. Significant accounting judgements and estimates (Continued)

Judgements *(Continued)*

Revenue recognition (Continued)

Revenue for hardware that does not require significant customisation, and where any software is considered incidental, is recognised under "ASBE No. 14 — Revenue", provided that the economic benefits of the revenue are likely to flow to the Group, the amount can be reliably measured, the major risk and reward of ownership have been transferred to the buyer, ongoing management and effective control usually associated with ownership are no longer sustained and relevant costs (incurred or to be incurred) can be reliably measured.

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

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

Estimation uncertainty

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

Impairment of fixed assets, construction in progress and intangible assets

The Group determines whether there is an indication of impairment of fixed assets, construction in progress and intangible assets at the balance sheet date. In case there is such an indication, the Group will estimate the recoverable amount and perform impairment tests. The recoverable amount is determined at the higher of the fair value of the asset net of disposal costs and the present value of the estimated future cash flow. The Group is required to estimate the future cash flow of the asset or the cash generating unit and select the appropriate discount rate to calculate the present value of the cash flow.

When the carrying amount of fixed assets, construction in progress and intangible assets exceeds the recoverable amount, the carrying amount will be written down to the recoverable amount and charged to the current period's profit and loss, an impairment provision is made accordingly.

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III. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (Continued)

24. Significant accounting judgements and estimates (Continued)

Estimation uncertainty *(Continued)*

Impairment of financial assets

The Group determines whether financial assets are impaired by estimating the future cash flow from the financial assets. An impairment loss is recognised only if the carrying amount of an asset exceeds the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, taking into account the value of the related collateral. Where the actual future cash flows and less than expected, a material impairment loss may arise.

Equity settled share expense

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

Depreciation and amortisation

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

Deferred tax assets

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

25. Change of accounting policies and estimates

There was no change of accounting policies and estimates of the Group.

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IV. TAXATION

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

Value-added tax	—	Payable on income generated from domestic sales of products and equipment repair services at a tax rate of 17% after deducting the current balance of tax credit available for offsetting.
Business tax	—	In accordance with relevant PRC tax regulations, business tax was payable by the Group at tax rates of 3% and 5%, respectively, on its sales income and service income which were subject to business tax.
City maintenance and construction tax	—	In accordance with relevant PRC tax regulations and local regulations, city maintenance and construction tax was payable according to rates stipulated by the State based on individual situations of the branches and subsidiaries of the Group.
Education surcharge	—	In accordance with relevant PRC tax regulations and local regulations, education surcharge was payable according to rates stipulated by the State based on individual situations of the branches and subsidiaries of the Group.
Individual income tax	—	In accordance with relevant PRC tax regulations, the Group withheld income tax from its salary payments to employees based on progressive tax rates.
Enterprise income tax	—	In accordance with the PRC Provisional Regulations on Enterprise Income Tax, enterprise income tax was payable by the Group on its taxable income.
Overseas tax	—	Overseas taxes were payable in accordance with tax laws of various countries and regions.

The Company was incorporated in Shenzhen Special Economic Zone and is deemed as a hi-tech enterprise in Shenzhen. The Company is applying for the registration as a national-grade high-tech enterprise with an applicable enterprise income tax rate of 15%. The enterprise income tax rates to certain subsidiaries of the Company in the PRC were as follows:

Wuxi Zhongxing Optoelectronics Technologies Company, Limited was registered at Wuxi State's Hi-tech Industrial Development Zone and was subject to an enterprise income tax rate of 15% for the year 2008.

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. Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited is a hi-tech enterprise in Shenzhen and is applying for the registration as a national hi-tech enterprise with an applicable enterprise income tax rate of 15%. The current year was the second profitable year and hence, the company was subject to a reduced enterprise income tax rate of 7.5%.

ZTE Mobile Tech Co., Ltd. registered in Nanshan Hi-tech Industrial Park is a hi-tech enterprise in Shenzhen. It is currently applying for the status of national-grade high-tech enterprise with an applicable enterprise income tax rate of 15%.

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IV. 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. The current year was the fourth profitable year and hence, the company was subject to a reduced enterprise income tax rate of 9% under the transitional tax rate of 18%.

Shanghai Zhongxing Telecom Equipment Technology & Service Company, Limited, was incorporated in Shanghai Pudong New Area and was subject to an enterprise income tax rate of 18% in 2008.

Shenzhen Zhongxing Software Company, Limited, was incorporated in Hi-Tech Industrial Park, Nanshan District, Shenzhen, and is one of the Important Software Enterprises under the National Planning Layout, with an applicable enterprise income tax rate of 10%.

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. Meanwhile, Shenzhen Zhongxing Liwei Technology Company, Limited is deemed as a hi-tech enterprise in Shenzhen. The company is applying for the registration as a national hi-tech enterprise with an applicable enterprise income tax rate of 15%. The current year was the fourth profitable year and hence, 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. The current year was the fourth profitable year and hence, the company was subject to a reduced enterprise income tax rate of 9% under the transitional tax rate of 18%.

Anhui Wantong Postal and Telecommunications Company, Limited, was subject to an enterprise income tax rate of 25%.

Shenzhen Changfei Investment Company, Limited was subject to an transitional enterprise income tax rate of 18%.

According to the new Enterprise Income Tax Law which took effect on 1 January 2008, the enterprise income tax for both domestic and foreign-invested enterprises is unified at 25%. An enterprise that is currently subject to a preferential tax rate may continue to enjoy the transitional tax rate and gradually transfers to the unified enterprise income tax rate of 25% from 15% within five years. The enterprise income tax rate for high-tech enterprises is 15%. The core subsidiaries of the Company are applying for the registration as a national-grade high-tech enterprise with an applicable income tax rate of 15%.

As the detailed rules and administrative measures for the New Enterprise Income Tax Law in respect of the assessment of Hi-tech enterprises by the State have yet to be promulgated, it is not possible to make any reasonable assessment of any other future financial impact that the implementation of the New Income Tax Law might have on the Group.

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V. SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

Name of subsidiary	Place of registration	Nature of business	Registered capital	Investment by the Group	Percentage of equity interests Direct	Percentage of equity interests Indirect	Percentage of voting rights	Organisation number
Shenzhen Zhongxing Software Company Limited	Shenzhen	Manufacturing	RMB50,000,000	RMB49,000,000	73%	25%	98%	75250847-2
ZTE (H.K.) Limited	Hong Kong	Information technology	HK$50,000,000	HKS50,000,000	100%	–	100%	Nil
Shenzhen Zhongxing Telecom Equipment Technology & Service Co., Ltd.	Shenzhen	Telecommunication and services	RMB50,000,000	RMB50,000,000	90%	10%	99%	76199710-8
ZTE Kangxun Telecom Company, Limited	Shenzhen	Telecommunication and related equipment manufacturing	RMB50,000,000	RMB45,000,000	90%	–	90%	279285671
ZTE Telecom India Private Limited	India	Telecommunication and related equipment manufacturing	RMB113,420,000	RMB113,420,000	7.73%	92.27%	100%	Nil
Nanjing Zhong Xing Software Development Technology Co., Ltd.	Nanjing	Manufacturing	USD7,230,000	RMB152,000,000	76%	–	76%	74537900-0
Shenzhen Changfei Investment Co., Ltd.	Shenzhen	Manufacturing	RMB30,000,000	RMB15,300,000	51%	–	51%	75860475-6
深圳市中興移動通信有限公司	Shenzhen	Telecommunication and related equipment manufacturing	RMB39,583,000	RMB45,790,000	80%	–	80%	73205874-2
Wuxi Zhongxing Optoelectronics Technologies Co., Ltd.	Wuxi	Telecommunication and related equipment manufacturing	RMB10,000,000	RMB6,500,000	65%	–	65%	71869554-2
Anhui Wantong Postal and Telecom Co., Ltd.	Hefei	Telecommunication and related equipment manufacturing	RMB31,100,000	RMB15,860,000	51%	–	51%	14897470-9
ZTE Integration Telecom Ltd.	Shenzhen	Telecommunication and related equipment manufacturing	RMB55,000,000	RMB41,250,000	75%	5%	80%	74886449-0
Shanghai Zhongxing Telecom Equipment Technology & Service Co., Ltd.	Shanghai	Telecommunication and services	RMB10,000,000	RMB5,100,000	51%	–	51%	76223980-0

During the six months ended 30 June 2008, the Group established 3 new subsidiaries. These subsidiaries are not principal operating subsidiaries and their results have been consolidated in the Group.

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

1. Cash in bank and on hand

		30 June 2008			31 December 2007		
		Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
Cash	RMB	**1,211**	**1.0000**	**1,211**	956	1.0000	956
	USD	**1,364**	**6.8591**	**9,356**	790	7.3046	5,771
	HKD	**48**	**0.8792**	**42**	97	0.9364	91
	THB	**826**	**0.2057**	**170**	305	0.2431	74
	SAR	**155**	**1.8340**	**284**	369	1.9428	717
	EUR	**54**	**10.8302**	**585**	56	10.6669	597
	BRL	**9**	**4.3001**	**39**	3	4.1337	12
	MRO	**16,391**	**0.0287**	**470**	9,156	0.0286	262
	DZD	**1,798**	**0.0980**	**176**	1,750	0.1020	179
	INR	**1,339**	**0.1597**	**214**	1,332	0.1852	247
	PKR	**559**	**0.1003**	**56**	472	0.1191	56
	IRR	**188,187**	**0.0008**	**151**	94,437	0.0008	76
	Others			**3,944**			522
	Subtotal			**16,698**			9,560

		30 June 2008			31 December 2007		
		Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
Bank deposit							
	RMB	**3,281,804**	**1.0000**	**3,281,804**	3,323,708	1.0000	3,323,708
	USD	**424,347**	**6.8591**	**2,910,639**	187,924	7.3046	1,372,710
	HKD	**14,601**	**0.8792**	**12,837**	38,325	0.9364	35,888
	IQD	**232,665**	**0.0060**	**1,396**	792,665	0.0064	5,073
	BRL	**5,008**	**4.3001**	**21,535**	7,374	4.1337	30,482
	JPY	**70,868**	**0.0645**	**4,571**	45,205	0.0641	2,898
	PKR	**1,341,418**	**0.1003**	**134,544**	496,485	0.1191	59,131
	EGP	**19,899**	**1.2869**	**25,608**	14,791	1.3257	19,608
	RUB	**56,983**	**0.2919**	**16,633**	17,913	0.2986	5,349
	SEK	**816**	**1.1443**	**934**	1,425	1.1265	1,605
	THB	**109,124**	**0.2057**	**22,447**	3,697	0.2431	899
	IDR	**40,300,184**	**0.0007**	**28,210**	8,138,452	0.0008	6,511
	COP	**1,122,196**	**0.0039**	**4,377**	1,141,295	0.0038	4,337
	VND	**496,715**	**0.0004**	**199**	245,597	0.0005	123
	INR	**281,442**	**0.1597**	**44,946**	12,040	0.1852	2,230
	EUR	**48,281**	**10.8302**	**522,893**	123,835	10.6669	1,320,936
	DZD	**392,352**	**0.0980**	**38,450**	238,239	0.1020	24,300
	GBP	**1,039**	**13.6836**	**14,217**	308	14.5807	4,491
	PHP	**6,822**	**0.1531**	**1,044**	13,916	0.1771	2,465
	ZAR	**3,394**	**0.9025**	**3,063**	—	—	—
	IRR	**5,153,080**	**0.0008**	**4,122**	—	—	—

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

1. Cash in bank and on hand (Continued)

		30 June 2008			31 December 2007		
		Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
Bank deposit	AUD	**3,370**	**6.3943**	**21,549**	101	6.4236	649
	SAR	**13,981**	**1.8340**	**25,641**	321	1.9428	624
	TJR	**4,033**	**1.9997**	**8,065**	4,290	2.1084	9,045
	MYR	**5,609**	**2.1053**	**11,809**	9,371	2.1870	20,494
	MAD	**1,973**	**0.9593**	**1,893**	—	—	—
	NPR	**5,600**	**0.1000**	**560**	7,299	0.1155	843
	MRO	**62,845**	**0.0287**	**1,804**	—	—	—
	XOF	**130,592**	**0.0169**	**2,207**	146,822	0.0164	2,408
	AED	**2,637**	**1.8792**	**4,955**	2,338	1.9879	4,648
	BDT	**29,364**	**0.1007**	**2,957**	8,121	0.1074	872
	ETB	**153,439**	**0.7145**	**109,632**	—	—	—
	PLN	**7,953**	**3.2103**	**25,532**	—	—	—
	SGD	**2,050**	**5.0435**	**10,339**	—	—	—
	NOK	**6,540**	**1.3533**	**8,851**	—	—	—
	Others			**25,223**	—	—	26,997
	Subtotal			**7,355,486**			6,289,324

		30 June 2008			31 December 2007		
		Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
Other currencies	RMB	**328,075**	**1.0000**	**328,075**	172,328	1.0000	172,328
	USD	**479**	**6.8591**	**3,286**	271	7.3046	1,980
	HKD	**247**	**0.8792**	**217**	246	0.9364	230
	THB	**—**	**—**	**—**	40,091	0.2431	9,746
	EUR	**60**	**10.8302**	**650**	—	—	—
	Others			**367**			2
	Subtotal			**332,595**			184,286
	Total			**7,704,779**			6,483,170

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

1. Cash in bank and on hand (Continued)

Pledged deposits	30 June 2008	31 December 2007
Deposits for bills	**120,446**	137,158
Deposits for performance bonds	**5,452**	5,263
Frozen for litigations	**–**	31,000
	125,898	173,421

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

2. Derivative financial assets

	30 June 2008	31 December 2007
Derivatives-Forward currency contracts	**76,993**	123,644

Management is of opinion that there is no significant restriction for the realisation of derivative financial assets.

3. Bills receivable

	30 June 2008	31 December 2007
Bank acceptance bills	**559,007**	745,257
Commercial acceptance bills	**1,643,889**	911,001
Total	**2,202,896**	1,656,258

There was no outstanding amount due from shareholders holding 5% or more in the shares as at the end of the period.

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

4. Trade receivables

Trade receivables arising from telecommunications system construction projects and the provision of services are recognised according to due dates stipulated in relevant contracts and agreements. No credit term is normally provided in respect of trade receivables arising from the sales of goods, although major customers may be given a grace period of up to 1 month. Trade receivables are interest-free.

The Group

	30 June 2008			31 December 2007		
	Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
RMB	**3,226,629**	**1.0000**	**3,226,629**	2,728,635	1.0000	2,728,635
USD	**547,025**	**6.8591**	**3,752,099**	419,704	7.3046	3,065,770
EUR	**34,832**	**10.8302**	**377,238**	38,699	10.6669	412,798
PKR	**3,841,271**	**0.1003**	**385,279**	2,638,900	0.1191	314,293
INR	**3,602,956**	**0.1597**	**575,392**	1,271,706	0.1852	235,520
AED	**188,170**	**1.8792**	**353,609**	—	—	—
IDR	**48,604,126**	**0.0007**	**34,023**	90,691,250	0.0008	72,553
BRL	**28,700**	**4.3001**	**123,413**	12,832	4.1337	53,044
Others			**453,780**			216,336
Total			**9,281,462**			7,098,949

Aging analysis of trade receivables was as follows:

	30 June 2008	31 December 2007
Within one year	**8,916,281**	6,870,741
One to two years	**360,797**	221,696
Two to three years	**4,384**	6,512
Over three years	**—**	—
	9,281,462	7,098,949

	30 June 2008				31 December 2007			
	Balance	**Percentage of the total balance**	**Provision for bad debts**	**Percentage of provision**	Balance	Percentage of the total balance	Provision for bad debts	Percentage of provision
Individually significant balances	**5,786,639**	**55.12%**	**753,011**	**13.01%**	3,296,926	40.43%	670,836	20.35%
Not significant balances	**4,712,532**	**44.88%**	**464,698**	**9.86%**	4,857,488	59.57%	384,629	7.92%
	10,499,171	**100%**	**1,217,709**		8,154,414	100%	1,055,465	

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

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

4. Trade receivables (Continued)

The Group (Continued)

Bad debt provision of trade receivables was as follows:

	Opening balance of the period	Provision for the period	Decrease for the period		Closing balance of the period
			Written back	Written off	
30 June 2008	**1,055,465**	**162,244**	**–**	**–**	**1,217,709**
31 December 2007	556,857	498,608	–	–	1,055,465

The top five balances of trade receivables amounted to RMB2,540,929,000 (31 December 2007: RMB2,077,764,000), accounting for 24.20% of the total balance of trade receivables (31 December 2007: 25.48%) of the Group as at the end of the period.

Of the balance of trade receivables as at 30 June 2008, RMB943,000 was due from shareholders holding 5% or more in the shares (31 December 2007: RMB943,000). Please refer to Note VIII "The relationships and transactions among related parties" for details.

Transfer of trade receivables that did not satisfy the condition of derecognition was separately classified as "Factored trade receivables" which amounted to RMB153,922,000 (31 December 2007: RMB153,668,000).

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

	30 June 2008	31 December 2007
Not overdue nor impaired	**1,999,815**	1,940,356
Overdue but not impaired		
within one year	**4,943,259**	4,313,249
	6,943,074	6,253,605

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

4. Trade receivables (Continued)

The Company

	30 June 2008			31 December 2007		
	Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
RMB	**2,982,397**	**1.0000**	**2,982,397**	2,533,099	1.0000	2,533,099
USD	**873,451**	**6.8591**	**5,991,088**	717,414	7.3046	5,240,422
HKD	**107,626**	**0.8792**	**94,625**	101,305	0.9364	94,862
EUR	**108,468**	**10.8302**	**1,174,730**	93,039	10.6669	992,438
AED	**188,170**	**1.8792**	**353,609**	—	—	—
Others			**134,480**			84,785
Total			**10,730,929**			8,945,606

Aging analysis of trade receivables was as follows:

	30 June 2008	31 December 2007
Within one year	**9,321,314**	7,984,658
One to two years	**839,948**	682,223
Two to three years	**367,093**	129,680
Over three years	**202,574**	149,045
	10,730,929	8,945,606

	30 June 2008				31 December 2007			
	Balance	**Percentage of the total balance**	**Provision for bad debts**	**Percentage Of provision**	Balance	Percentage of the total balance	Provision for bad debts	Percentage of provision
Individually significant balances	**3,845,359**	**32.78%**	**632,851**	**16.46%**	2,650,376	26.95%	610,258	23.03%
Not significant balances	**7,885,207**	**67.22%**	**366,786**	**4.65%**	7,183,078	73.05%	277,590	3.86%
	11,730,566	**100%**	**999,637**		9,833,454	100%	887,848	

Bad debt provision of trade receivables was as follows:

	Opening balance of the period	**Provision for the period**	**Decrease for the period**		**Closing balance of the period**
			Written back	**Written off**	
30 June 2008	**887,848**	**111,789**	**—**	**—**	**999,637**
31 December 2007	469,228	418,620	—	—	887,848

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

4. Trade receivables (Continued)

The Company (Continued)

The top five balances of trade receivables amounted to RMB2,382,374,000 (31 December 2007: RMB4,013,185,000), accounting for 20.31% of the total balance of trade receivables (31 December 2007: 40.81%) of the Company as at the end of the period.

Of the balance of trade receivables as at 30 June 2008, none was due from shareholders holding 5% or more in the shares (31 December 2007: nil).

Transfer of trade receivables that did not satisfy the condition of derecognition was separately classified as "Factored trade receivables" which amounted to RMB278,922,000 (31 December 2007: RMB278,668,000).

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

	30 June 2008	31 December 2007
Not overdue nor impaired	**1,743,399**	1,786,532
Overdue but not impaired within one year	**6,130,744**	6,008,454
	7,874,143	7,794,986

5. Prepayment

Aging analysis of prepayments was as follows:

	30 June 2008		31 December 2007	
	Balance of carrying value	**Percentage**	Balance of carrying value	Percentage
Within one year	**356,556**	**100%**	311,362	100%
One to two years	**—**	**—**	—	—
Total	**356,556**	**100%**	311,362	100%

There was no outstanding amount due from shareholders holding 5% or more in the shares as at 30 June 2008 (31 December 2007: Nil).

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

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6. Other receivables

The Group

Aging analysis of other receivables was as follows:

	30 June 2008	31 December 2007
Within one year	**587,873**	655,230
One to two years	**50,765**	21,067
Two to three years	**12,958**	13,592
Over three years	**10,763**	—
	662,359	689,889

	30 June 2008				31 December 2007			
	Balance	**Percentage of the total balance**	**Provision for bad debts**	**Percentage of provision**	Balance	Percentage of the total balance	Provision for bad debts	Percentage of provision
Individually significant balances	**60,293**	**9.10%**	**—**	**—**	42,719	6.19%	—	—
Not significant balances	**602,066**	**90.90%**	**—**	**—**	647,170	93.81%	—	—
	662,359	**100%**	**—**		689,889	100.00%	—	

The top five balances of other receivables amounted to RMB182,021,000 (31 December 2007: RMB137,856,000), accounting for 27.48% of the total balance of other receivables (31 December 2007: 11.93%) of the Group as at the end of the period.

In the balance of other receivables as at 30 June 2008, none was due from shareholders holding 5% or more in the shares.

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

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

6. Other receivables (Continued)

The Company

	30 June 2008	31 December 2007
Within one year	**657,578**	679,584
One to two years	**13,367**	64,419
Two to three years	**254,532**	487,966
Over three years	**419,631**	257,393
	1,345,108	1,489,362

	30 June 2008				31 December 2007			
	Balance	**Percentage of the total balance**	**Provision for bad debts**	**Percentage of provision**	Balance	Percentage of the total balance	Provision for bad debts	Percentage of provision
Individually significant balances	**323,914**	**24.08%**	**–**	**–**	42,719	2.87%	–	–
Not significant balances	**1,021,194**	**75.92%**	**–**	**–**	1,446,643	97.13%	–	–
	1,345,108	**100%**	**–**		1,489,362	100%	–	

The top five balances of other receivables amounted to RMB829,630,000 (31 December 2007: RMB521,020,000), accounting for 61.68% of the total balance of other receivables of the Company at the end of the period (31 December 2007: 29.95%).

Of the balance of other receivables as at 30 June 2008, none was due from shareholders holding 5% or more in the shares.

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

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

7. Inventory

	30 June 2008	31 December 2007
Raw materials	**2,296,997**	2,546,562
Materials under sub-contract processing	**92,576**	50,962
Work-in-progress	**1,063,660**	735,703
Finished goods	**2,084,004**	2,553,963
	5,537,237	5,887,190
Less: provision for impairment	**(555,027)**	(523,760)
	4,982,210	5,363,430

An analysis of inventories provision was as follows:

30 June 2008

	Opening balance of the period	**Provision for the period**	**Written back for the period**	**Closing balance of the period**
Raw materials	**114,504**	**58,198**	**—**	**172,702**
Materials under sub-contract processing	**7,779**	**—**	**(4,537)**	**3,242**
Work-in-progress	**37,866**	**—**	**(13,360)**	**24,506**
Finished goods	**363,611**	**—**	**(9,034)**	**354,577**
	523,760	**58,198**	**(26,931)**	**555,027**

31 December 2007

	Opening balance of the year	Provision for the year	Written back for the year	Closing balance of the year
Raw materials	131,171	—	(16,667)	114,504
Materials under sub-contract processing	—	7,779	—	7,779
Work-in-progress	8,577	29,289	—	37,866
Finished goods	308,914	54,697	—	363,611
	448,662	91,765	(16,667)	523,760

Inventory is stated at the lower of cost and net realisable value, where the cost exceeds the net realisable value, impairment is made and recognised as expenses. The impairment of inventory was reversed during the year following the sale of such inventory.

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

8. Construction contracts

	30 June 2008	31 December 2007
Amount due from customers for contract work	**10,800,623**	8,606,291
Amount due to customers for contract work	**(901,888)**	(1,597,314)
	9,898,735	7,008,977
Contract costs incurred plus recognised profits less recognised losses to date	**25,176,658**	22,777,810
Less: progress billings	**(15,277,923)**	(15,768,833)
	9,898,735	7,008,977
Construction work	**7,413,011**	4,942,904
Goods delivered	**2,485,724**	2,066,073
	9,898,735	7,008,977

9. Available-for-sale financial assets

The Group

	30 June 2008	31 December 2007
Available-for-sale financial assets	**43,464**	43,464

30 June 2008

	Opening balance of the period	**Additions**	**Reductions**	**Closing balance of the period**
深圳市創新投資集團有限公司	**5,000**	**—**	**—**	**5,000**
北京中視聯數字系統有限公司	**3,240**	**—**	**—**	**3,240**
中移鼎訊通信股份有限公司	**32,000**	**—**	**—**	**32,000**
Beijing Zhongxing Intelligent Transportation Systems Ltd.	**1,024**	**—**	**—**	**1,024**
杭州中興發展有限公司	**2,000**	**—**	**—**	**2,000**
貴州艾瑪特信息超市項目開發有限公司	**200**	**—**	**—**	**200**
	43,464	**—**	**—**	**43,464**

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

9. Available-for-sale financial assets (Continued)

The Group (Continued)

31 December 2007

	Opening balance of the year	Additions	Reductions	Closing balance of the year
深圳市創新投資集團有限公司	5,000	—	—	5,000
北京中視聯數字系統有限公司	3,240	—	—	3,240
中移鼎訊通信股份有限公司	32,000	—	—	32,000
Beijing Zhongxing Intelligent Transportation Systems Ltd.	1,024	—	—	1,024
SunTop Technologies Ltd.	24	—	(24)	—
杭州中興發展有限公司	2,000	—	—	2,000
貴州艾瑪特信息超市項目開發有限公司	200	—	—	200
	43,488	—	(24)	43,464

The Company

	30 June 2008	31 December 2007
Available-for-sale financial assets	**41,464**	41,464

30 June 2008

	Opening balance of the period	**Additions**	**Reductions**	**Closing balance of the period**
深圳市創新投資集團有限公司	**5,000**	**—**	**—**	**5,000**
北京中視聯數字系統有限公司	**3,240**	**—**	**—**	**3,240**
Beijing Zhongxing Intelligent Transportation Systems Ltd.	**1,024**	**—**	**—**	**1,024**
中移鼎訊通信股份有限公司	**32,000**	**—**	**—**	**32,000**
貴州艾瑪特信息超市項目開發有限公司	**200**	**—**	**—**	**200**
	41,464	**—**	**—**	**41,464**

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

9. Available-for-sale financial assets (Continued)

The Company (Continued)

31 December 2007

	Opening balance of the year	Additions	Reductions	Closing balance of the year
深圳市創新投資集團有限公司	5,000	—	—	5,000
北京中視聯數字系統有限公司	3,240	—	—	3,240
SunTop Technologies Ltd.	24	—	(24)	—
中興智能交通系統（北京）有限公司	1,024	—	—	1,024
中移鼎訊通信股份有限公司	32,000	—	—	32,000
貴州艾瑪特信息超市項目開發有限公司	200	—	—	200
	41,488	—	(24)	41,464

10. Long-term trade receivables

The Group

	30 June 2008	31 December 2007
Receivables in instalment for service	**744,116**	762,395
Less: Long-term trade receivables due within one year	**—**	—
Bad debt provision	**(162,703)**	(181,388)
	581,413	581,007

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

	Opening balance of the period	**Provision for the period**	**Reduction for the period**		**Closing balance of the period**
			Written back	**Written off**	
30 June 2008	**181,388**	**—**	**(18,685)**	**—**	**162,703**
31 December 2007	—	181,388	—	—	181,388

Transfer of Long-term trade receivables that did not satisfy the condition of derecognition was separately classified as "Factored Long-term trade receivables" which amounted to RMB2,875,777,000 (31 December 2007: RMB3,142,709,000).

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

10. Long-term trade receivables (Continued)

The Company

	30 June 2008	31 December 2007
Receivables in instalment for service	**561,967**	583,103
Less: Long-term trade receivables due within one year	**—**	—
Bad debt provision	**(162,703)**	(181,388)
	399,264	401,715

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

	Opening balance of the period	**Provision for the period**	**Reduction for the period**		**Closing Balance of the period**
			Written back	**Written off**	
30 June 2008	**181,388**	**—**	**(18,685)**	**—**	**162,703**
31 December 2007	—	181,388	—	—	181,388

Transfer of Long-term trade receivables that did not satisfy the condition of derecognition was separately classified as "Factored Long-term trade receivables" which amounted to RMB3,254,399,000 (31 December 2007: RMB3,142,709,000).

11. Long-term equity investments

The Group

		30 June 2008	31 December 2007
Equity method			
Jointly-controlled entities	(1)	**2,186**	2,255
Associates	(2)	**149,628**	134,764
Less: impairment for long-term equity investment		**—**	—
		151,814	137,019

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VI. 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 — 30 June 2008

(1) Jointly-controlled entities

	Share of registered capital	Initial investment 1	Accumulated additional investment 2	Equity adjustment: Change in profit and loss during the period	Equity adjustment: Cash bonus during the period	Equity adjustment: Accumulated change in profit and loss 3	Provision for investment: Additions for the period	Provision for investment: Accumulated additions 4	Balance at the end of the period 5=1+2+3+4
Bestel Communications Ltd.	50%	2,050	–	–	(69)	136	–	–	2,186
		2,050	–	–	(69)	136	–	–	2,186

(2) Associates

	Share of registered capital	Initial investment 1	Accumulated reduced investment 2	Equity adjustment: Change in profit and loss during the period	Equity adjustment: Cash bonus during the period	Equity adjustment: Accumulated change in profit and loss 3	Provision for investment: Additions for the period	Provision for investment: Accumulated additions 4	Balance at the end of the period 5=1+2+3+4
深圳市富德康電子有限公司	30%	1,800	–	212	–	1,140	–	–	2,940
ZTE IC Design Co., Ltd.	34%	30,000	(1,844)	4,354	–	(6,003)	–	–	22,153
KAZNURTEL Limited Liability Company	49%	1,012	–	–	–	1,465	–	–	2,477
Wuxi Kaier Technology Co., Ltd.	31%	3,500	–	202	–	4,358	–	–	7,858
Shenzhen Zhongxing Xinyu FPC Company Limited	23%	2,500	–	123	–	3,824	–	–	6,324
Shenzhen Weigao Semiconductor Company, Limited	40%	4,000	–	605	–	(821)	–	–	3,179
Shenzhen Decang Technology Company Limited	30%	1,000	–	(152)	–	12,067	–	–	13,067
深圳市聚飛光電有限公司	25%	4,500	–	2,877	–	6,971	–	–	11,471
中興軟件技術（南昌）有限公司	30%	4,500	–	(1,469)	–	(2,561)	–	–	1,939
Shenzhen Smart Electronics Company, Limited	30%	3,335	–	3,591	–	7,410	–	–	10,745
深圳市鼎力網絡有限公司	35%	3,500	–	33	–	(606)	–	–	2,894
WANAAG Communications Limited	45%	351	–	(93)	–	(351)	–	–	–
Zhongxing Energy Company Limited	23%	60,000	–	(233)	–	(233)	–	–	59,767
北京中鼎盛安科技有限公司	49%	490	–	(176)	–	(176)	–	–	314
南昌興飛科技有限公司	30%	4,500	–	–	–	–	–	–	4,500
		124,988	(1,844)	9,874	–	26,484	–	–	149,628

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11. Long-term equity investments (Continued)

The Group — 30 June 2008 (Continued)

(3) Jointly-controlled entities and associates

Major financial information of jointly-controlled entities and associates:

	Place of registration	Principal activities	Registered capital	Percentage of the Group's shareholdings	Percentage of the Group's voting rights
Jointly-controlled entities					
Bestel Communications Ltd	Republic of Cyprus	Information technology	Cyprus pounds 600,000	50%	50%
Associates					
深圳市富德康電子有限公司	China	Machinery and electronic equipment wholesale trade	RMB280,000	30%	30%
ZTE IC Design Co., Ltd.	China	Computer and related equipment manufacturing industry	RMB64,000,000	34%	34%
KAZNURTEL Limited Liability Company	Kazakhstan	Computer and related equipment manufacturing industry	US$3,000,000	49%	49%
Wuxi Kaier Technology Co., Ltd.	China	Machinery equipment	RMB11,332,729	30.88%	30.88%
Shenzhen Zhongxing Xinyu FPC Company Limited	China	Machinery equipment	RMB11,000,000	22.73%	22.73%
Shenzhen Weigao Semiconductor Company, Limited	China	Machinery equipment	RMB10,000,000	40%	40%
Shenzhen Decang Technology Company Limited	China	Machinery equipment	RMB2,500,000	30%	30%
深圳市聚飛光電有限公司	China	Machinery equipment	RMB18,000,000	30%	30%
中興軟件技術（南昌）有限公司	China	Computer application services	RMB15,000,000	30%	30%
Shenzhen Smart Electronics Company, Limited	China	Machinery equipment	RMB17,151,174	30%	30%
深圳市鼎力網絡有限公司	China	Communications equipment manufacturing	RMB10,000,000	35%	35%
WANAAG Communications Limited	Hong Kong	Communication services	US$100,000	45%	45%
Zhongxing Energy Company Limited	China	Energy industry	RMB1,290,000,000	23.26%	23.26%
北京中鼎盛安科技有限公司	China	Computer application services	RMB1,000,000	49%	49%
南昌興飛科技有限公司	China	Communications industry	RMB15,000,000	30%	30%

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11. Long-term equity investments (Continued)

The Group — 30 June 2008 (Continued)

(3) Jointly-controlled entities and associates (Continued)

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

	30 June 2008 Total assets	30 June 2008 Total liabilities	Six months ended 30 June 2008 Operating revenue	Six months ended 30 June 2008 Net profit
Jointly-controlled entities				
Bestel Communications Ltd	4,606	96	—	—
Associates				
深圳市富德康電子有限公司	35,505	26,424	24,121	707
ZTE IC Design Co., Ltd.	135,363	70,210	115,972	12,806
KAZNURTEL Limited Liability Company	7,164	2,109	—	—
Wuxi Kaier Technology Co., Ltd.	96,550	71,424	123,027	656
Shenzhen Zhongxing Xinyu FPC Company Limited	95,694	70,777	44,941	537
Shenzhen Weigao Semiconductor Company, Limited	29,602	21,654	37,280	1,513
Shenzhen Decang Technology Company Limited	98,672	50,884	94,859	(507)
深圳市聚飛光電有限公司	84,789	38,750	42,507	11,508
中興軟件技術（南昌）有限公司	69,341	84,519	12,797	(4,896)
Shenzhen Smart Electronics Company, Limited	44,526	8,051	110,687	11,970
深圳市鼎力網絡有限公司	8,579	311	1,899	95
WANAAG Communications Limited	2,440	4,036	102	(703)
Zhongxing Energy Company Limited	261,193	198	—	(1,004)
北京中鼎盛安科技有限公司	686	45	—	(360)
南昌興飛科技有限公司	4,500	—	—	—

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VI. 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 — 2007

(1) Jointly-controlled entities

				Equity adjustment			Provision for investment		
	Share of registered capital	Initial investment 1	Accumulated reduced investment 2	Change in profit and loss during the year	Cash bonus during the year	Accumulated change in profit and loss 3	Additions for the year	Accumulated additions 4	Balance at year-end 5=1+2+3+4
Beijing Zhongxingxin Communication Equipment Company, Limited	50%	2,500	(4,465)	–	–	1,965	–	–	–
Bestel Communications Ltd.	50%	2,050	–	135	–	205	–	–	2,255
		4,550	(4,465)	135	–	2,170	–	–	2,255

(2) Associates

				Equity adjustment			Provision for investment		
	Share of registered capital	Initial investment 1	Accumulated reduced investment 2	Change in profit and loss during the year	Cash bonus during the year	Accumulated change in profit and loss 3	Additions for the year	Accumulated additions 4	Balance at year-end 5=1+2+3+4
深圳市富德康電子有限公司	30%	1,800	–	1,203	–	928	–	–	2,728
ZTE IC Design Co., Ltd.	34%	30,000	(1,844)	4,505	–	(10,357)	–	–	17,799
Beijing Zhongxing Yuanjing Technology Co., Ltd.	30%	3,000	(3,000)	(4,076)	–	–	–	–	–
KAZNURTEL Limited Liability Company	49%	1,012	–	–	–	1,465	–	–	2,477
Wuxi Kaier Technology Co., Ltd.	30.88%	3,500	–	2,794	–	4,156	–	–	7,656
Shenzhen Zhongxing Xinyu FPC Company Limited	22.73%	2,500	–	3,548	(1,177)	3,701	–	–	6,201
Shenzhen Weigao Semiconductor Company, Limited	40%	4,000	–	(142)	–	(1,426)	–	–	2,574
Shenzhen Decang Technology Company Limited	30%	1,000	–	9,608	–	12,219	–	–	13,219
深圳市聚飛光電有限公司	30%	4,500	–	4,415	–	4,094	–	–	8,594
中興軟件技術（南昌）有限公司	30%	4,500	–	114	–	(1,092)	–	–	3,408
Shenzhen Smart Electronics Company, Limited	30%	3,335	–	3,017	–	3,819	–	–	7,154
深圳市鼎力網絡有限公司	35%	3,500	–	(326)	–	(639)	–	–	2,861
WANAAG Communications Limited	45%	351	–	–	–	(258)	–	–	93
Zhongxing Energy Company Limited	23.26%	60,000	–	–	–	–	–	–	60,000
		122,998	(4,844)	24,660	(1,177)	16,610	–	–	134,764

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VI. 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 — 2007 (Continued)

(3) Jointly-controlled entities and associates

Major financial information of jointly-controlled entities and associates:

	Place of registration	Principal activities	Registered capital	Percentage of the Group's shareholdings	Percentage of the Group's voting rights
Jointly-controlled entities					
Bestel Communications Ltd	Republic of Cyprus	Information technology	Cyprus pounds 600,000	50%	50%
Associates					
深圳市富德康電子有限公司	China	Machinery and electronic equipment wholesale trade	RMB280,000	30%	30%
ZTE IC Design Co., Ltd.	China	Computer and related equipment manufacturing industry	RMB64,000,000	34%	34%
KAZNURTEL Limited Liability Company	Kazakhstan	Computer and related equipment manufacturing industry	US$3,000,000	49%	49%
Wuxi Kaier Technology Co., Ltd.	China	Machinery equipment	RMB11,332,729	30.88%	30.88%
Shenzhen Zhongxing Xinyu FPC Company Limited	China	Machinery equipment	RMB11,000,000	22.73%	22.73%
Shenzhen Weigao Semiconductor Company, Limited	China	Machinery equipment	RMB10,000,000	40%	40%
Shenzhen Decang Technology Company Limited	China	Machinery equipment	RMB2,500,000	30%	30%
深圳市聚飛光電有限公司	China	Machinery equipment	RMB18,000,000	30%	30%
中興軟件技術（南昌）有限公司	China	Computer application services	RMB15,000,000	30%	30%
Shenzhen Smart Electronics Company, Limited	China	Machinery equipment	RMB17,151,174	30%	30%
深圳市鼎力網絡有限公司	China	Communications equipment manufacturing	RMB10,000,000	35%	35%
WANAAG Communications Limited	Hong Kong	Communication services	US$100,000	45%	45%
Zhongxing Energy Company Limited	China	Energy industry	RMB1,290,000,000	23.26%	23.26%

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11. Long-term equity investments (Continued)

The Group — 2007 (Continued)

(3) Jointly-controlled entities and associates (Continued)

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

	End of 2007 Total assets	End of 2007 Total liabilities	2007 Operating revenue	2007 Net profit
Jointly-controlled entities				
Bestel Communications Ltd	4,606	96	—	270
Associates				
深圳市富德康電子有限公司	29,841	21,467	52,323	4,009
ZTE IC Design Co., Ltd.	116,375	64,027	150,091	13,250
KAZNURTEL Limited Liability Company	7,164	2,109	—	—
Wuxi Kaier Technology Co., Ltd.	78,612	54,142	270,923	9,048
Shenzhen Zhongxing Xinyu FPC Company Limited	114,381	87,102	129,443	15,609
Shenzhen Weigao Semiconductor Company, Limited	37,259	30,824	43,153	(355)
Shenzhen Decang Technology Company Limited	126,493	78,929	228,724	32,027
深圳市聚飛光電有限公司	77,980	42,789	72,725	14,717
中興軟件技術（南昌）有限公司	53,563	42,203	43,391	380
Shenzhen Smart Electronics Company, Limited	50,997	27,345	71,063	10,057
深圳市鼎力網絡有限公司	8,486	313	1,923	(931)
WANAAG Communications Limited	2,343	3,236	2,644	—
Zhongxing Energy Company Limited	258,000	—	—	—

The Company

		30 June 2008	31 December 2007
Cost method			
Subsidiaries	(3)	**577,351**	577,351
Equity method			
Jointly-controlled entities	(4)	**—**	—
Associates	(5)	**86,336**	83,684
Less: impairment for long-term equity investment	(6)	**(113,065)**	(113,065)
		550,622	547,970

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VI. 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 Company — 2008

(3) Subsidiaries

	Initial amount	Opening balance for the period	Additions during the period	Reductions during the period	Balance at the end of the perid
ZTE Kangxun Telecom Co., Ltd.	45,000	45,000	—	—	45,000
ZTE (USA) Inc.	5,381	5,381	—	—	5,381
Wuxi Zhongxing Optoelectronics Technologies Company, Limited	3,920	3,920	—	—	3,920
ZTE (H.K.) Limited	53,200	53,200	—	—	53,200
Anhui Wantong Postal and Telecommunications Company Limited	15,698	15,698	—	—	15,698
TELRISE (Cayman) Telecom Ltd.	15,770	21,165	—	—	21,165
Shenzhen Guoxin Electronics Development Company, Limited	29,700	29,700	—	—	29,700
Congo-Chine Telecom S.A.R.L	55,800	55,800	—	—	55,800
Yangzhou Zhongxing Mobile Telecom Company, Limited	3,900	3,900	—	—	3,900
深圳市中興移動通信有限公司	45,799	45,799	—	—	45,799
Nanjing Zhong Xing Software Development Company, Limited	24,282	23,982	—	—	23,982
ZTE (UK) Limited	4,533	5,286	—	—	5,286
ZTE Do Brasil LTDA	10,058	18,573	—	—	18,573
Shenzhen ZTE Software Company, Limited.	38,609	36,500	—	—	36,500
ZTE Integration Telecom Ltd.	41,250	41,250	—	—	41,250
ZTE Wistron Telecoom AB	2,445	3,137	—	—	3,137
ZTE Communication Technologies, Ltd.	4,188	4,188	—	—	4,188
ZTE Corporation Mexico S.DE R.L DE C.V	41	41	—	—	41
Shenzhen Changfei Investment Company Limited	15,300	15,300	—	—	15,300
Zhongxing Telecom Pakistan (Private) Ltd	2,971	2,971	—	—	2,971
Guangdong New Pivot Technology & Service Company Limited	13,500	13,500	—	—	13,500
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	—	—	45,000
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited	5,100	5,100	—	—	5,100
ZTE Holdings (Thailand) Co., Ltd	10	10	—	—	10
ZTE Thailand) Co., Ltd	2,044	5,040	—	—	5,040
Shenzhen Special Equipment Company, Limited	540	540	—	—	540
ZTE Telecom India Private Ltd.	1,654	1,654	—	—	1,654
ZTE Romania S.R.L	827	827	—	—	827
ZTE (Malaysia) Corporation SDN.BHD.	496	496	—	—	496
ZiMAX (Cayman) Holding Ltd.	45,485	45,485	—	—	45,485
西安中興精誠通訊有限公司	11,396	11,396	—	—	11,396
Closed joint Stock Company TK Mobile	4,258	4,258	—	—	4,258
PT ZTE INDONESIA	1,654	1,654	—	—	1,654
Shenzhen Zhongxing Liwei Technology Company, Limited	6,000	6,000	—	—	6,000
深圳市中聯成電子發展有限公司	600	600	—	—	600
深圳市興意達通訊技術有限公司	5,000	5,000	—	—	5,000
		577,351	—	—	577,351

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VI. 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 Company — 2008

(4) Jointly-controlled entities (Nil)

(5) Associates

				Equity adjustment			Provision for investment		
	Share of registered capital	Initial investment 1	Accumulated reduced investment 2	Change in profit and loss during the period	Cash bonus during the period	Accumulated change in profit and loss 3	Additions for the period	Accumulated additions 4	Balance at the end of the period 5=1+2+3+4
KAZNURTEL Limited Liability Company	49%	1,012	–	–	–	1,465	–	–	2,477
中興軟件技術（南昌）有限公司	30%	4,500	–	(1,469)	–	(2,561)	–	–	1,939
ZTE IC Design Co., Ltd.	34%	30,000	(1,844)	4,354	–	(6,003)	–	–	22,153
Zhongxing Energy Company Limited	23.26%	60,000	–	(233)	–	(233)	–	–	59,767
		95,512	(1,844)	2,652	–	(7,332)	–	–	86,336

(6) Provision for long-term equity investment

	Opening and closing balances of the period
ZTE (USA) Inc.	5,381
TELRISE (CAYMAN) Telecom Ltd	12,970
Shenzhen Guoxin Electronics Development Company, Limited	23,767
Yangzhou Zhongxing Mobile Telecom Company, Limited	3,900
深圳市中興移動通信有限公司	17,657
ZTE (UK) Limited	4,533
ZTE Do Brasil LTDA	10,059
ZTE Integration Telecom Ltd.	4,591
ZTE Wistron Telecom AB	2,030
ZTE Corporation Mexico S.DE R.L DE C.V	41
Zhongxing Telecom Pakistan (Private) Ltd	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656
ZTE Holdings (Thailand) Co., Ltd	10
ZTE (Thailand) Co., Ltd	205
ZTE Telecom india Private Ltd.	1,654
ZTE Romania S.R.L	827
ZTE (Malasysia) Corporation SDN.BHD.	496
ZiMAX (Cayman) Holding Ltd.	12,317
	113,065

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VI. 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 Company — 2007

(3) Subsidiaries

	Initial amount	Opening balance for the year	Additions during the year	Reductions during the year	Balance at year-end
ZTE Kangxun Telecom Co., Ltd.	45,000	45,000	—	—	45,000
ZTE (USA) Inc.	5,381	5,381	—	—	5,381
Wuxi Zhongxing Optoelectronics Technologies Company, Limited	3,920	3,920	—	—	3,920
ZTE (H.K.) Limited	53,200	53,200	—	—	53,200
Anhui Wantong Postal and Telecommunications Company Limited	15,698	15,698	—	—	15,698
Telrise (Cayman) Telecom Ltd.	15,770	21,165	—	—	21,165
Shenzhen Guoxin Electronics Development Company, Limited	29,700	29,700	—	—	29,700
Congo-Chine Telecom S.A.R.L	55,800	55,800	—		55,800
Yangzhou Zhongxing Mobile Telecom Company, Limited	3,900	3,900	—	—	3,900
深圳市中興移動通信有限公司	45,799	45,799	—	—	45,799
Nanjing Zhong Xing Software Development Company, Limited	24,282	23,982	—	—	23,982
ZTE (UK) Ltd.	4,533	5,286	—	—	5,286
ZTE Do Brasil LTDA	10,058	10,058	8,515	—	18,573
Shenzhen ZTE Software Company, Limited.	38,609	36,500	—	—	36,500
ZTE Integration Telecom Ltd.	41,250	41,250	—	—	41,250
ZTE Wistron Telecom AB	2,445	3,137	—	—	3,137
ZTE-Communication Technologies, Ltd.	4,188	4,188	—	—	4,188
ZTE Corporation Mexico S. DE R. L DE C.V.	41	41	—	—	41
Shenzhen Changfei Investment Company Limited	15,300	15,300	—	—	15,300
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	2,971	—	—	2,971
Guangdong New Pivot Technology & Service Company Limited	13,500	13,500	—	—	13,500
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	—	—	45,000
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited	5,100	5,100	—	—	5,100
ZTE Holdings (Thailand) Co., Ltd.	10	10	—	—	10
ZTE (Thailand) Co., Ltd.	2,044	2,044	2,996	—	5,040
Shenzhen Special Equipment Company, Limited	540	540	—	—	540
ZTE Telecom India Private Ltd.	1,654	1,654	—	—	1,654
ZTE Romania S.R.L.	827	827	—	—	827
ZTE (Malaysia) Corporation SDN.BHD.	496	496	—	—	496
ZiMax (Cayman) Holding Ltd.	45,485	45,485	—	—	45,485
西安中興精誠通訊有限公司	11,396	11,396	—	—	11,396
Closed Joint Stock Company TK Mobile	4,258	4,258	—	—	4,258
PT. ZTE Indonesia	1,654	1,654	—	—	1,654
Shenzhen Zhongxing Liwei Technology Company, Limited	6,000	6,000	—	—	6,000
深圳市中聯成電子發展有限公司	600	—	600	—	600
深圳市興意達通訊技術有限公司	5,000	—	5,000	—	5,000
		560,240	17,111	—	577,351

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VI. 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 Company — 2007 (Continued)

(4) Jointly-controlled entities

				Equity adjustment					
							Provision for investment		
	Share of registered capital	Initial investment 1	Accumulated reduced investment cost 2	Change in profit and loss during the year	Cash bonus during the year	Accumulated change in profit and loss 3	Additions for the year	Accumulated additions 4	Balance at year-end 5=1+2+3+4
Beijing Zhongxingxin Communication Equipment Company, Limited	50%	2,500	(4,465)	649	–	1,965	–	–	–

(5) Associates

			Equity adjustment						
							Provision for investment		
	Share of registered capital	Initial investment 1	Accumulated reduced investment 2	Change in profit and loss during the year	Cash bonus during the year	Accumulated change in profit and loss 3	Additions for the year	Accumulated additions 4	Balance at year-end 5=1+2+3+4
ZTE IC Design Co., Ltd.	34%	30,000	(1,844)	4,505	–	(10,357)	–	–	17,799
Beijing Zhongxing Yuanjing Technology Co., Ltd.	30%	3,000	(3,000)	–	–	–	–	–	–
KAZNURTEL Limited Liability Company	49%	1,012	–	–	–	1,465	–	–	2,477
中興軟件技術（南昌）有限公司	30%	4,500	–	114	–	(1,092)	–	–	3,408
Zhongxing Energy Company Limited	23.26%	60,000	–	–	–	–	–	–	60,000
		98,512	(4,844)	4,619	–	(9,984)	–	–	83,684

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VI. 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 Company — 2007 (Continued)

(6) Provision for long-term equity investment

	Opening and closing balances for the year
ZTE (USA) Inc.	5,381
Telrise (Cayman) Telecom Ltd.	12,970
Shenzhen Guoxin Electronics Development Company, Limited	23,767
Yangzhou Zhongxing Mobile Telecom Company, Limited	3,900
深圳市中興移動通信有限公司	17,657
ZTE (UK) Ltd.	4,533
ZTE Do Brasil LTDA	10,059
ZTE Integration Telecom Ltd.	4,591
ZTE Wistron Telecom AB	2,030
ZTE Corporation Mexico S. DE R. L DE C.V.	41
Zhongxing Telecom Pakistan (Private) Ltd.	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656
ZTE Holdings (Thailand) Co., Ltd.	10
ZTE (Thailand) Co., Ltd.	205
ZTE Telecom India Private Ltd.	1,654
ZTE Romania S.R.L.	827
ZTE (Malaysia) Corporation SDN.BHD.	496
ZiMax (Cayman) Holding Ltd.	12,317
	113,065

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

12. Fixed assets

30 June 2008

	Buildings	Electronic equipment	Machinery equipment	Motor vehicles	Other equipment	Total
Cost:						
Opening balance	1,291,681	1,945,474	1,512,304	262,115	37,745	5,049,319
Addition	9,953	90,105	177,478	28,253	7,435	313,224
Transferred from Construction in progress	482,000	6,673	—	—	—	488,673
Retirements and disposals	(1,568)	(47,125)	(23,588)	(6,349)	(1,094)	(79,724)
Exchange realignments	(1,714)	(49,716)	(9,966)	(2,559)	(2,122)	(66,077)
Closing balance	1,780,352	1,945,411	1,656,228	281,460	41,964	5,705,415
Accumulated depreciation:						
Opening balance	250,459	922,884	642,335	93,171	15,405	1,924,254
Provision	27,201	42,058	114,524	58,650	12,787	255,220
Write-off	(967)	(27,270)	(6,117)	(16,917)	(849)	(52,120)
Exchange realignments	(286)	(9,478)	(6,187)	(725)	(558)	(17,234)
Closing balance	276,407	928,194	744,555	134,179	26,785	2,110,120
Provision for impairment:						
Opening and closing balance	7,708	77,819	1,475	—	—	87,002
Carrying value:						
Closing balance	1,496,237	939,398	910,198	147,281	15,179	3,508,293
Opening balance	1,033,514	944,771	868,494	168,944	22,340	3,038,063

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

12. Fixed assets (Continued)

As at 30 June 2008, houses and buildings with a book value of RMB94,623,000 (31 December 2007: RMB96,478,000) was pledged as security for the preservation of properties subject to legal proceedings. Details are disclosed in Note IX: Contingent Events. A subsidiary of the Group pledged real estate properties with a book value of RMB3,908,000 (31 December 2007: RMB3,990,000) as security for short-term loans. Another subsidiary of the Group pledged real estate properties with a book value of RMB5,709,000 and machinery equipment with a book value of RMB10,638,000 as security for short-term loans. Two subsidiaries of the Group pledged real estate properties with a book value of RMB10,643,000 (31 December 2007: RMB8,906,000) and machinery equipment with a book value of RMB112,571,000 (31 December 2007: RMB121,044,000) as security for long-term loans.

Fixed assets in use for which depreciation had been fully charged had a original cost of RMB408,998,000 (31 December 2007: RMB375,250,000) and a book value of RMB20,450,000 (31 December 2007: RMB18,763,000). There were no fixed assets which were obsolete, pending disposal or idle (31 December 2007: nil).

As at 30 June 2008, the Group was in the process of applying for property ownership certificate for buildings in Shenzhen and Nanjing in China with a net book value of approximately RMB891,136,000 (31 December 2007: RMB422,462,000).

31 December 2007

	Buildings	Electronic equipment	Machinery equipment	Motor vehicles	Other equipment	Total
Cost:						
Opening balance	1,007,029	1,774,751	1,195,875	238,044	18,875	4,234,574
Addition	56,930	357,289	274,757	45,090	21,418	755,484
Transferred from Construction in progress	228,136	–	75,164	–	–	303,300
Retirements and disposals	–	(137,141)	(32,007)	(20,163)	(2,666)	(191,977)
Exchange realignments	(414)	(49,425)	(1,485)	(856)	118	(52,062)
Closing balance	1,291,681	1,945,474	1,512,304	262,115	37,745	5,049,319
Accumulated depreciation:						
Opening balance	191,732	820,411	453,671	80,211	9,689	1,555,714
Provision	58,796	208,575	206,926	25,802	6,726	506,825
Write-off	–	(97,441)	(16,975)	(12,560)	(947)	(127,923)
Exchange realignments	(69)	(8,661)	(1,287)	(282)	(63)	(10,362)
Closing balance	250,459	922,884	642,335	93,171	15,405	1,924,254
Provision for impairment:						
Opening and closing balance	7,708	77,819	1,475	–	–	87,002
Carrying value:						
Closing balance	1,033,514	944,771	868,494	168,944	22,340	3,038,063
Opening balance	807,589	876,521	740,729	157,833	9,186	2,591,858

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13. Construction in progress

30 June 2008

Name of construction project	Budget	Opening balance of the period	Additions		Closing balance of the period	Source of funds	Completion status of project
Liuxiandong ZTE Industrial Park	1,000,000	471,817	180,632	482,000	170,449	Internal resources	74.94%
Nanjing II phase	–	23,496	10,838	–	34,334	Internal resources	
Shanghai II phase	–	229,452	22,047	–	251,499	Internal resources	
Nanjing III phase	–	86,834	135,374	–	222,208	Internal resources	
Equipment install project	–	108,130	394,344	6,673	495,801	Internal resources	
Others	–	11,361	13,179	–	24,540	Internal resources	
		931,090	756,414	488,673	1,198,831		

31 December 2007

Name of construction project	Budget	Opening balance of the year	Additions	Transferred to fixed assets	Closing balance of the year	Source of funds	Completion status of project
Liuxiandong ZTE Industrial Park	650,000	191,818	376,999	97,000	471,817	Internal resources	87.51%
Nanjing II phase	–	90,457	55,039	122,000	23,496	Internal resources	
Shanghai II phase	–	92,667	136,785	–	229,452	Internal resources	
Nanjing III phase	–	18,090	68,744	–	86,834	Internal resources	
Equipment install project	–	60,747	122,546	75,163	108,130	Internal resources	
Others	–	15,857	4,641	9,137	11,361	Internal resources	
		469,636	764,754	303,300	931,090		

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14. Intangible assets

30 June 2008

	Software	Technology know-how	Land use rights	Operating concession	Total
Cost:					
Opening balance	363,946	1,354	47,809	98,619	511,728
Additions	10,520	3,279	572	—	14,371
Reductions	(43,813)	—	—	(3,875)	(47,688)
Closing balance	330,653	4,633	48,381	94,744	478,411
Accumulated amortisation:					
Opening balance	211,720	624	1,426	46,154	259,924
Amortisation during the period	20,791	358	239	1,803	23,191
Write-off	(1,829)	—	—	(1,152)	(2,981)
Closing balance	230,682	982	1,665	46,805	280,134
Provision for impairment:					
Opening and closing balance	12,884	—	6,322	7,750	26,956
Carrying value					
Closing balance	87,087	3,651	40,394	40,189	171,321
Opening balance	139,342	730	40,061	44,715	224,848

As at 30 June 2008, a subsidiary of the Group pledged land use rights with a book value of RMB22,971,000 as security for short-term borrowings. A subsidiary of the Group pledged software with a book value of RMB48,775,000 (31 December 2007: RMB54,183,000) as security for long-term borrowings. Another subsidiary pledged business concession rights with a book value of RMB40,127,000 (31 December 2007: RMB44,654,000) as security for long-term borrowings.

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14. Intangible assets (Continued)

31 December 2007

	Software	Technology know-how	Land use rights	Operating concession	Total
Cost:					
Opening balance	272,443	1,354	14,866	103,006	391,669
Additions	96,698	—	32,943	—	129,641
Reductions	(5,195)	—	—	(4,387)	(9,582)
Closing balance	363,946	1,354	47,809	98,619	511,728
Accumulated amortisation:					
Opening balance	166,916	316	840	43,782	211,854
Amortisation during the year	46,477	308	586	3,439	50,810
Write-off	(1,673)	—	—	(1,067)	(2,740)
Closing balance	211,720	624	1,426	46,154	259,924
Provision for impairment:					
Opening and closing balance	12,884	—	6,322	7,750	26,956
Net:					
Closing balance	139,342	730	40,061	44,715	224,848
Opening balance	92,643	1,038	7,704	51,474	152,859

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15. Research and development cost

	30 June 2008	31 December 2007
System products	**258,475**	209,475
Handsets	**109,870**	49,516
	368,345	258,991

Total research and development cost for the period:

	Six months ended 30 June 2008	Six months ended 30 June 2007
Credited/charged to current profit and loss	**1,647,898**	1,521,489
Recognised as assets	**126,225**	67,972

16. Deferred tax assets

30 June 2008

	Unrealised profit	**Provision for maintenance**	**Tax losses**	**Overseas tax**	**Inventories provision**	**Others**	**Total**
Opening balance	**62,083**	**10,632**	**71,155**	**136,695**	**65,450**	**6,195**	**352,210**
Credited/charged to profit and loss	**(1,327)**	**1,422**	**–**	**42,113**	**(1,626)**	**–**	**40,582**
Closing balance	**60,756**	**12,054**	**71,155**	**178,808**	**63,824**	**6,195**	**392,792**

31 December 2007 (Restated)

	Unrealised profit	Provision for maintenance	Tax losses	Overseas tax	Inventories provision	Others	Total
Opening balance	7,298	34,562	51,141	87,516	53,166	5,208	238,891
Credited/charged to profit and loss	54,785	(23,930)	20,014	49,179	12,284	987	113,319
Closing balance	62,083	10,632	71,155	136,695	65,450	6,195	352,210

At 30 June 2008, deductible losses of the Group not recognised as deferred income tax assets amounted to RMB1,132,711,000 (31 December 2007: RMB389,043,000), which would expire in 2011. The Group is of the view that taxable profit which may be used to set off the said deductible losses is unlikely to arise in the future, therefore deferred income tax assets have not been recognised in respect of the said item.

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17. Long-term deferred assets

The Group entered into an international construction contract with Algerie Telecom for the provision of telecommunications equipment. Pursuant to the agreement, a subsidiary of the Group will share certain portion of the operating revenue of Algerie Telecom for 5 years after the commissioning of the project, and the ownership of these telecommunications equipment shall be transferred to Algerie Telecom after 5 years at nil consideration. As at 31 December 2007, the project was completed. Such assets would be amortised on the straight line basis over a period of 5 years.

Algerie broadband network construction project:

	Original cost	Opening balance of the period	Increase during the period	Amortisation during the period	Accumulated amortisation	Closing balance of the period
30 June 2008	**48,498**	**33,494**	**–**	**(3,322)**	**(18,326)**	**30,172**
31 December 2007	48,498	40,415	–	(6,921)	(15,004)	33,494

18. Provision for impairment of assets

30 June 2008

	Opening balance of the period	Provision for the period	Decrease for the period Written back	Decrease for the period Written off	Closing balance of the period
Provision of bad debts	**1,270,899**	**168,191**	**—**	**(5,807)**	**1,433,283**
Provision for impairment of inventories	**523,760**	**58,198**	**(26,931)**	**—**	**555,027**
Provision for impairment of fixed assets	**87,002**	**—**	**—**	**—**	**87,002**
Provision for impairment of intangible assets	**26,956**	**—**	**—**	**—**	**26,956**
	1,908,617	**226,389**	**(26,931)**	**(5,807)**	**2,102,268**

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18. Provision for impairment of assets (Continued)

31 December 2007

	Opening balance of the year	Provision for the year	Decrease for the year: Written back	Decrease for the year: Written off	Closing balance of the year
Provision of bad debts	556,857	714,042	—	—	1,270,899
Provision for impairment of inventories	448,662	91,765	(16,667)	—	523,760
Provision for impairment of fixed assets	87,002	—	—	—	87,002
Provision for impairment of intangible assets	26,956	—	—	—	26,956
	1,119,477	805,807	(16,667)	—	1,908,617

19. Short-term loans

		30 June 2008 Original currency	30 June 2008 RMB equivalent	31 December 2007 Original currency	31 December 2007 RMB equivalent	
Credit loans	RMB	446,800	446,800	808,990	808,990	
	USD	475,918	3,264,369	276,992	2,023,231	
	INR	203,000	32,419	160,000	29,634	
Guaranteed loans	RMB	—	—	29,000	29,000	
Pledged loans	RMB	3,000	3,000	3,000	3,000	Note 1
	RMB	60,000	60,000	—	—	Note 2
	USD	126,958	870,817	—	—	
			4,677,405		2,893,855	

Note 1: The loan was secured by real estate of a subsidiary of the Group with a carrying value of RMB3,908,000.

Note 2: The loan was secured by certain inventories, real estate, equipment and land use rights of a subsidiary of the Group.

The interest rates of the short-term loans range from 3.20% to 9.13%.

20. Financial guarantee contracts

In 2006, the Group provided financial guarantees to customers with a maximum exposure of RMB50 million. Such guarantee will expire in September 2018. This financial guarantee contract was accounted for as a financial liability and recognised at the initially measured fair value of RMB3,689,000.

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21. Bills payable

The Group

	30 June 2008	31 December 2007
Bank acceptance bills	**2,547,638**	3,946,429
Commercial acceptance bills	**1,380,210**	—
	3,927,848	3,946,429

There were no outstanding amounts due to shareholders holding 5% or more in the shares as at 30 June 2008 (31 December 2007: Nil).

The Company

	30 June 2008	31 December 2007
Bank acceptance bills	**2,307,904**	3,130,628
Commercial acceptance bills	**1,688,784**	687,382
	3,996,688	3,818,010

There were no outstanding amounts due to shareholders holding 5% or more in the shares as at 30 June 2008 (31 December 2007: Nil).

22. Trade payables

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

The Group

Of the balance of trade payables as at the end of the year, RMB107,831,000 was due to shareholders holding 5% or more in the shares (31 December 2007: RMB88,023,000). Please refer to Notes VIII "The relationships and transactions among related parties".

The Company

There were no outstanding amounts due to shareholders holding 5% or more in the shares as at 30 June 2008 (31 December 2007: Nil).

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23. Advances from customers

No outstanding amounts due to shareholders holding 5% or more in the shares as at 30 June 2008 (31 December 2007: Nil).

24. Salary and welfare payables

30 June 2008

	Opening balance of the period	Accruals	Payments	Closing balance of the period
Salary, bonus and allowance	**896,972**	**2,610,984**	**(2,911,268)**	**596,688**
Staff welfare	**43,963**	**147,420**	**(172,459)**	**18,924**
Social insurance	**9,045**	**158,491**	**(159,172)**	**8,364**
Included: Medical Insurance	**449**	**31,238**	**(31,164)**	**523**
Pension Insurance	**8,411**	**115,273**	**(116,043)**	**7,641**
Unemployment Insurance	**112**	**6,654**	**(6,641)**	**125**
Occupational injury Insurance	**28**	**3,215**	**(3,214)**	**29**
Maternity Insurance	**45**	**2,111**	**(2,110)**	**46**
Housing funds	**1,790**	**2,264**	**(2,653)**	**1,401**
Labour union fund and employee education fund	**290,069**	**96,689**	**(36,827)**	**349,931**
	1,241,839	**3,015,848**	**(3,282,379)**	**975,308**

31 December 2007

	Opening balance of the year	Accruals	Payments	Closing balance of the year
Salary, bonus and allowance	668,307	4,360,358	(4,131,693)	896,972
Staff welfare	133,867	263,295	(353,199)	43,963
Social insurance	3,578	217,942	(212,475)	9,045
Including: Medical Insurance	369	51,190	(51,110)	449
Pension Insurance	3,057	147,596	(142,242)	8,411
Unemployment Insurance	92	8,246	(8,226)	112
Occupational injury Insurance	23	7,615	(7,610)	28
Maternity Insurance	37	3,295	(3,287)	45
Housing funds	1,397	2,303	(1,910)	1,790
Labour union fund and employee education fund	251,655	117,704	(79,290)	290,069
	1,058,804	4,961,602	(4,778,567)	1,241,839

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25. Tax payable

	30 June 2008	31 December 2007
Value-added tax ("VAT")	**(1,890,164)**	(1,804,841)
Business tax	**(21,875)**	6,504
City maintenance and construction tax	**2,720**	2,328
Income tax	**570,048**	399,502
PRC tax	**115,244**	43,971
Overseas tax	**454,804**	355,531
Education surcharge fee	**6,481**	6,584
Individual income tax	**50,607**	19,580
Other tax	**2,556**	28,013
	(1,279,627)	(1,342,330)

26. Dividend payable

	30 June 2008	31 December 2007
Restricted shares	**77,989**	—
Unrestricted shares	**221,015**	41,180
	299,004	41,180

The balance represented dividends in respect of public circulating shares not paid by the Company.

27. Provision

30 June 2008

	Opening balance of the period	**Increase during the period**	**Decrease during the period**	**Closing balance of the period**
Provision of penalty	**36,603**	**—**	**(3,694)**	**32,909**
Provision for returned handsets	**30,371**	**1,807**	**(589)**	**31,589**
Provision for warranties	**59,068**	**7,897**	**—**	**66,965**
	126,042	**9,704**	**(4,283)**	**131,463**

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27. Provision (Continued)

31 December 2007

	Opening balance of the year	Increase during the year	Decrease during the year	Closing balance of the year
Provision of penalty	4,035	36,603	(4,035)	36,603
Provision for returned handsets	31,645	10,414	(11,688)	30,371
Provision for warranties	256,152	61,793	(258,877)	59,068
	291,832	108,810	(274,600)	126,042

28. Other payables

	30 June 2008	31 December 2007
Share incentive scheme	**481,516**	485,931
Accruals	**378,374**	298,823
Payables to external parties	**311,750**	338,384
Deposits	**33,217**	51,372
Others	**172,523**	139,547
	1,377,380	1,314,057

Of the balance of other payables as at the end of the year, RMB308,000 was due to shareholders holding 5% or more in the shares (31 December 2007: RMB313,000). Please refer to Notes VIII. "The relationships and transactions among related parties".

29. Long-term liabilities due within one year

	30 June 2008	31 December 2007
Long-term loans	**1,303,317**	1,509,569

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30. Long-term loans

			30 June 2008		31 December 2007			
Terms	Financial institutes		Original currency	RMB equivalent	Original currency	RMB equivalent	Maturity	
Credit loans	The Export-import Bank of China	RMB	800,000	800,000	1,400,000	1,400,000	2008	
	Bank of China	USD	50,000	342,955	50,000	365,230	2009-2010	
	China Citic Bank	USD	20,000	137,182	20,000	146,092	2010	
	Agricultural Bank of China	USD	15,000	102,886	–	–	2008	
	Standard Chartered bank	INR	11,588	1,851	–	–	2010	
	Others			430		111,929	2008-2010	
Guaranteed loans	Export-import Bank of China	RMB	701,477	701,477	708,143	708,143	2009-2012	Note 1
Pledged loans	China Development Bank	USD	55,200	378,622	55,200	403,214	2012	Note 2
	China Development Bank	USD	95,000	651,615	63,000	460,190	2009	Note 3
Less: Long-term loans due within one year				(1,303,317)		(1,509,569)		
				1,813,701		2,085,229		

The interest rates for long-term loans range from 2.00% to 11.50%.

Note 1: Out of the amount, RMB400 million was guaranteed by Guangdong Development Bank, Shenzhen Branch, and the balance was guaranteed by the Ministry of State-owned Enterprises of Congo (Kinshasa).

Note 2: The loan is pledged or secured by existing assets and assets to be created in future by loans under loan agreements of a subsidiary of the Group.

Note 3: The loan is pledged by the Company's 51% equity interests in a subsidiary. Minority shareholders provided a counter-guarantee for the subsidiary by pledging its 25% equity interests in the subsidiary. The loan is also secured by fixed assets purchased with the loans under the loan agreement.

31. Bonds payable

	30 June 2008
Opening balance	–
Net liabilities in bonds cum warrants	3,381,234
Interest expenses	45,621
Interest paid	–
Closing balance	3,426,855

On 30 January 2008, the Company issued 40,000,000 bonds cum warrants with a nominal value of RMB100 each, amounting to RMB4 billion in total. The bonds cum warrants are listed on the Shenzhen Stock Exchange. The bonds cum warrants are guaranteed by China Development Bank, and have a maturity of 5 years from the date of issuance. Each bond entitles its subscriber to an unconditional issue of 1.63 warrants, namely 65,200,000 warrants are issuable in aggregate. The warrants are valid for 24 months from the date of listing, conferring rights to subscribe for one A share at an exercise price of RMB78.13 for every 2 warrants held. The bonds cum warrants bear interests at a rate of 0.8% per annum payable in arrears on 30 January each year.

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31. Bonds payable (Continued)

On 30 June 2008, the net carrying value of the cost of liabilities of the Company's bonds cum warrants on the date of issuance was analysed as follows:

	30 June 2008
Nominal value of bonds cum warrants	**4,000,000**
Equity component (less deferred tax liabilities)	**(468,832)**
Deferred income tax liabilities	**(111,377)**
Direct cost of acquisition	**(38,557)**
Cost of liabilities on the date of issuance	**3,381,234**

32. Deferred tax liability

As at 30 June 2008

	R&D capitalisation	Equity component of bonds cum warrants	Total
Opening balance	**56,460**	**—**	**56,460**
Credited/charged to profit and loss	**(28,114)**	**(8,958)**	**(37,072)**
Credited/charged to capital reserves	**—**	**111,377**	**111,377**
Closing balance	**28,346**	**102,419**	**130,765**

As at 31 December 2007 (Restated)

	R&D capitalisation	Total
Opening balance	27,968	27,968
Credited/charged to profit and loss	28,492	28,492
Closing balance	56,460	56,460

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33. Specific payables

	Opening and closing balance of the period
CASIC technology appropriations	80,000

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

34. Share capital

The Company had 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.	Shares subject to lock-up					
1.	State owned corporate shares	310,983	32.41%	(47,976)	263,007	27.41%
2.	Other domestic shares					
	Domestic natural person shares	971	0.10%	12	983	0.10%
3.	Foreign shares					
	Foreign corporate shares	–	–	–	–	–
	Total number of Shares subject to lock-up	311,954	32.51%	(47,964)	263,990	27.51%
II.	Shares not subject to lock-up					
1.	RMB ordinary shares	487,417	50.80%	47,964	535,381	55.80%
2.	Overseas listed foreign shares	160,151	16.69%	–	160,151	16.69%
	Total number of Shares not subject to lock-up	647,568	67.49%	47,964	695,532	72.49%
III.	Total shares	959,522	100%	–	959,522	100%

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35. Capital reserves

As at 30 June 2008

	Share premium	Provision for equity investments	Share incentive scheme	Equity component of bonds cum warrants	Other capital reserves	Total
Changes of other equity holders' interest in invested entities under equity method	**–**	**38,396**	**–**	**–**	**–**	**38,396**
Issue of new shares	**5,462,657**	**–**	**–**	**–**	**–**	**5,462,657**
Share-based payments	**–**	**–**	**448,982**	**–**	**–**	**448,982**
Issue of bonds cum warrants	**–**	**–**	**–**	**468,832**	**–**	**468,832**
Others	**–**	**–**	**–**	**–**	**6,131**	**6,131**
	5,462,657	**38,396**	**448,982**	**468,832**	**6,131**	**6,424,998**

As at 31 December 2007

	Share premium	Provision for equity investments	Share incentive scheme	Other capital reserves	Total
Changes of other equity holders' interest in invested entities under equity method	—	38,396	—	—	38,396
Issue of new shares	5,462,657	—	—	—	5,462,657
Share-based payments	—	—	300,148	—	300,148
Others	—	—	—	6,131	6,131
	5,462,657	38,396	300,148	6,131	5,807,332

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

36. Surplus reserves

	Opening balance	Increase during the period	Decrease during the period	Closing balance
30 June 2008	**1,364,758**	**42,541**	**—**	**1,407,299**
31 December 2007	1,331,059	33,699	—	1,364,758

In accordance with the Company Law of the PRC and the articles of associations, the Company is required to allocate 10% of their profit after tax to the statutory surplus reserve (the "SSR"). The Company may stop making allocations to the SSR after the accumulated statutory surplus reserve has reached 50% of the registered capital of the Company.

The Company may further make allocations to the discretionary surplus reserve after making the statutory surplus reserves allocation. With due approval, the discretionary surplus reserve may be applied to make up losses of the previous years, or capitalised as the company's share capital.

37. Retained profits

	30 June 2008	31 December 2007
Retained profits as at the end of the previous period	**4,071,111**	2,911,544
Impact of the first-time adoption of ASBEs	**—**	85,036
Retained profits at the beginning of the period after retrospective adjustments	**4,071,111**	2,996,580
Net profit	**557,386**	1,252,158
Less: Statutory surplus reserves	**(42,541)**	(33,699)
Dividend payable	**(239,880)**	(143,928)
Proposed dividend at the end of the period	**—**	(239,880)
Retained profits at the end of the period	**4,346,076**	3,831,231

38. Minority interests

The minority interests of the Group's major subsidiaries are as follow:

	30 June 2008	31 December 2007
Anhui Wantong Postal and Telecommunications Company, Limited	**30,150**	29,344
ZTE Kangxun Telecom Co., Ltd.	**227,189**	217,905
Shenzhen Changfei Investment Company, Limited	**208,515**	194,184
Nanjing Zhong Xing Software Development Technology Co., Ltd.	**85,878**	76,883
Congo-Chine Telecom S.A.R.L	**56,066**	45,609
Wuxi Zhongxing Optoelectronics Technologies Company, Limited	**38,695**	32,211

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

39. Operating revenue and costs

The Group

	Six months ended 30 June 2008	Six months ended 30 June 2007
Revenue from principal operations	**19,633,969**	15,161,736
Revenue from other operations	**95,015**	70,196
	19,728,984	15,231,932

	Six months ended 30 June 2008	Six months ended 30 June 2007
Costs of principal operations	**13,030,468**	9,622,112
Costs of other operations	**71,745**	56,270
	13,102,213	9,678,382

Sales to the top five customers of the Group generated revenue of RMB5,032,336,000 in the first half of 2008 (first half of 2007: RMB6,271,511,000), accounting for 25.51% (first half of 2007: 41.17%) of the sales of the Group.

The Company

	Six months ended 30 June 2008	Six months ended 30 June 2007
Revenue from principal operations	**17,259,601**	14,595,113
Revenue from other operations	**29,306**	9,729
	17,288,907	14,604,842

	Six months ended 30 June 2008	Six months ended 30 June 2007
Costs of principal operations	**14,792,264**	12,209,641
Costs of other operations	**2,757**	368
	14,795,021	12,210,009

Sales to the top five customers of the Company generated revenue of RMB4,645,405,000 in the first half of 2008 (first half of 2007: RMB6,271,511,000), accounting for 26.87% (first half of 2007: 42.94%) of the sales of the Group.

Revenue from principal operations refers to the revenue from telecommunications system contracts, sale of goods and services. Segment information of the Group is set out in Note VII "Segment information".

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

40. Taxes and surcharges

	Six months ended 30 June 2008	Six months ended 30 June 2007
Business tax	**89,953**	74,412
City maintenance and construction tax	**8,017**	8,495
Education surcharge	**12,836**	11,482
Others	**38,310**	22,865
	149,116	117,254

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

41. Finance Expenses

	Six months ended 30 June 2008	Six months ended 30 June 2007
Interest expenses	**321,591**	119,877
Less: Interest income	**(53,806)**	(17,757)
Exchange losses	**76,438**	28,813
Cash discounts and interest subsidy	**36,688**	37,216
Bank charges	**20,967**	22,219
	401,878	190,368

42. Impairment Losses

	Six months ended 30 June 2008	Six months ended 30 June 2007
Bad debt provisions	**168,191**	72,508
Provisions for impairment of inventories	**31,267**	23,412
	199,458	95,920

43. Gains or losses from changes in fair values

	Six months ended 30 June 2008	Six months ended 30 June 2007
Derivative financial assets/liabilities	**(69,633)**	24,811

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

44. Investment income

The Group

	Six months ended 30 June 2008	Six months ended 30 June 2007
Investment Income from long-term investment under equity method	**9,874**	1,707
Investment Income from derivative financial assets	**29,914**	6,878
Investment Income from disposal of equity investment	**10,423**	181
Dividend received	**1,495**	—
	51,706	8,766

The Company

	Six months ended 30 June 2008	Six months ended 30 June 2007
Investment Income from long-term investment under cost method	**1,174,944**	4,239
Investment Income from long-term investment under equity method	**4,252**	676,680
Investment Income/(loss) from derivative financial assets	**45,157**	(2,239)
	1,224,353	678,680

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

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

45. Non-operating Income/Non-operating Expenses

Non-operating Income

	Six months ended 30 June 2008	Six months ended 30 June 2007
Refund of VAT on software products (Note 1)	**346,839**	323,324
Government subsidies	**31,725**	33,663
Financial subsidies	**35,414**	7,976
Others	**21,566**	9,781
Total	**435,544**	374,744

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

Non-operating Expenses

	Six months ended 30 June 2008	Six months ended 30 June 2007
Penalties	**19,532**	41,338
Others	**10,292**	6,873
Total	**29,824**	48,211

46. Income Tax

	Six months ended 30 June 2008	Six months ended 30 June 2007
Current Income Tax	**276,870**	94,521
Deferred Income Tax	**(77,654)**	(39,077)
	199,216	55,444

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

46. Income Tax (Continued)

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

	Six months ended 30 June 2008	Six months ended 30 June 2007
Consolidated total profit	**868,642**	610,851
Tax at statutory tax rate (Note 1)	**217,160**	201,580
Effect of different tax rates applicable to certain subsidiaries	**(86,865)**	(109,952)
Profits and losses attributable to jointly-controlled entities and associates	**219**	(250)
Non-taxable income	**(154,031)**	(194,084)
Non-deductible tax expenses	**105,562**	46,297
Tax losses from previous years utilised	**(3,635)**	(734)
Unrecognised tax losses	**120,806**	112,587
Tax charge at the Group's effective rate	**199,216**	55,444

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

The New Corporate Income Tax Law became effective on 1 January 2008. The united tax rate for domestic and foreign enterprises was 25%. The tax rate applicable to for national-grade hi-tech enterprises is 15%.

47. Earnings par share

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

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

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

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

47. Earnings par share (Continued)

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

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

	Six months ended 30 June 2008	Six months ended 30 June 2007 (Restated)
Earnings		
Net profit for the period attributable to holders of ordinary shares of the Company	**557,386**	459,840
Interests on potentially dilutive ordinary shares recognised as expenses for the period, net of tax	**50,111**	–
Income arising on conversion of potentially dilutive ordinary shares	**–**	–
Adjusted net profit for the period attributable to holders of ordinary shares of the Company	**607,497**	459,840
Shares		
Weighted average number of ordinary shares of the Company in issue (including bonus shares)**	**1,343,330**	1,343,330
Diluting effect — weighted average number of ordinary shares:		
Shares subject to lock-up under share incentive scheme	**9,596**	–
Bonds cum warrants	**27,167**	–
Adjusted weighted average number of ordinary shares of the Company in issue	**1,380,093**	1,343,330

* The amount of diluted earnings per shares has not been disclosed as convertible bonds had an anti-dilutive effect on the basic earnings per share for the period, since the inclusion of the bonds cum warrants will result in the increase of diluted earnings per share.

** The bonus shares in question were issued during the period between the balance sheet date and the date on which these financial reports were approved, and should be taken into account in the weighted average number of ordinary shares in issue.

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

48. Cash paid or received relating to other operating activities

Significant cashflow is set out as follows:

	Six months ended 30 June 2008	Six months ended 30 June 2007
Cash received relating to other operating activities:		
Government subsidies	**67,139**	33,662

	Six months ended 30 June 2008	Six months ended 30 June 2007
Cash paid relating to other operating activities:		
Selling and distribution costs	**1,707,621**	1,531,327
Administrative expenses and research and development cost	**582,219**	698,390

49. Cash flows from operating activities

	Six months ended 30 June 2008	Six months ended 30 June 2007 (Restated)
Reconciliation of net profit to cash flows from operating activities		
Net profit	**669,426**	555,407
Add: Provision for impairment of assets	**199,458**	95,920
Depreciation of fixed assets	**255,220**	253,327
Amortisation of intangible assets and deferred development costs	**40,062**	26,300
Amortisation of long-term deferred assets	**3,322**	3,025
Loss on disposal of fixed assets, intangible assets and other long-term assets	**3,459**	5,683
Loss/(gain) from changes in fair value	**69,633**	(24,811)
Finance expenses	**398,029**	148,690
Investment income	**(51,706)**	(8,766)
Increase in deferred tax assets	**33,723**	(39,077)
Increase in inventories	**(69,698)**	(1,940,033)
Increase in operating receivables	**(4,380,275)**	(4,947,251)
Increase in operating payables	**(518,215)**	5,510,757
Equity settled share expense	**148,834**	148,834
Decrease in restricted bank deposits	**47,523**	51,522
Net cash flows from operating activities	**(3,151,205)**	(160,473)

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

50. Cash and cash equivalents

	Six months ended 30 June 2008	Six months ended 30 June 2007
Cash		
Including: Cash on hand	**16,698**	25,769
Bank deposits readily available	**6,595,107**	5,463,776
Readily available cash in other currencies	**967,076**	—
Balance of cash and cash equivalents at the end of the period	**7,578,881**	5,489,545
Restricted cash and cash equivalents used by the Company or subsidiaries of the Group	**125,898**	117,475

VII. 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 is 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. Summary 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, WCDMA, TD-SCDMA, 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, WCDMA, TD-SCDMA, and GSM mobile phone handsets and PHS handsets.

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

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VII. SEGMENT INFORMATION (Continued)

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

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

1. Business segments (on a primary segment reporting basis)

Six months ended 30 June 2008

	Wireless communications	Wireline switch and access	Optical and data communications	Handset	Telecommunications software systems, services and other products	Total
Operating revenue	7,495,122	1,115,337	4,242,792	4,294,615	2,581,118	19,728,984
Operating costs	994,148	147,937	562,761	569,635	342,358	2,616,839
Operating profit	184,423	25,516	117,997	79,142	55,844	462,922
Other segment information:						
Depreciation and amortisation	118,384	16,703	58,112	71,790	33,615	298,604
Provision for impairment of assets	76,275	11,258	42,277	44,105	25,543	199,458

30 June 2008

	Wireless communications	Wireline switch and access	Optical and data communications	Handset	Telecommunications software systems, services and other products	Total
Total assets						
Segment assets	11,388,210	1,680,267	6,306,240	6,587,682	3,809,020	29,771,419
Unallocated assets						15,772,603
Subtotal						45,544,022
Total liabilities						
Segment liabilities	2,217,443	124,211	521,563	550,262	210,568	3,624,047
Unallocated liabilities						28,049,317
Subtotal						31,673,364
Other segment information:						
Capital expenditure	469,600	66,258	230,517	284,771	133,340	1,184,486

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VII. SEGMENT INFORMATION (Continued)

1. Business segments (on a primary segment reporting basis) (Continued)

Six months ended 30 June 2007

	Wireless communications	Wireline switch and access	Optical and data communications	Handset	Telecommunications software systems, services and other products	Total
Operating revenue	6,801,448	592,150	2,545,361	3,592,480	1,700,493	15,231,932
Operating costs	1,080,091	94,035	404,211	570,497	270,043	2,418,877
Operating profit	164,692	11,865	43,742	43,881	20,138	284,318
Other segment information:						
Depreciation and amortisation	108,754	9,600	67,805	40,676	55,817	282,652
Provision for impairment of assets	36,268	3,293	23,259	13,953	19,147	95,920

31 December 2007

	Wireless communications	Wireline switch and access	Optical and data communications	Handset	Telecommunications software systems, services and other products	Total
Total assets						
Segment assets	11,000,505	1,082,006	4,912,012	3,965,018	4,078,282	25,037,823
Unallocated assets						14,191,733
Subtotal						39,229,556
Total liabilities						
Segment liabilities	1,610,709	155,801	553,440	183,649	584,934	3,088,533
Unallocated liabilities						23,252,615
Subtotal						26,341,148
Other segment information:						
Capital expenditure	683,648	62,074	438,431	263,014	358,056	1,805,223

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VII. SEGMENT INFORMATION (Continued)

2. Geographical segments (on a secondary segment reporting basis)

Six months ended 30 June 2008

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

30 June 2008

	The PRC	**Asia (excluding the PRC)**	**Africa**	**Others**	**Total**
Total assets	**22,966,876**	**10,062,948**	**7,133,287**	**5,380,911**	**45,544,022**

Six months ended 30 June 2007

	The PRC	Asia (excluding the PRC)	Africa	Others	Total
Operating revenue	7,261,335	3,980,003	1,850,193	2,140,401	15,231,932

31 December 2007

	The PRC	Asia (excluding the PRC)	Africa	Others	Total
Total assets	27,192,396	9,562,700	1,186,344	1,288,116	39,229,556

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VIII. THE RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES

1. Definition of a related party

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

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

1) The Group's parent company;

2) The Group's subsidiaries;

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

4) Investors exercising common control over the Group;

5) Investors exercising significant influence over the Group;

6) The Group's joint ventures;

7) The Group's associates;

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

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

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

2. Parent company and subsidiaries

Name of parent company	Place of registration	Nature of business	Shareholding percentage of the company	Vote right percentage of the company	Organisation code	Registered Capital
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	Shenzhen, Guangdong	Manufacturing	35.08%	35.08%	19222451-8	RMB100 million

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

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VIII. THE RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (Continued)

3. Other related parties

	Relationship with connected parties	Organisation code
Shenzhen Zhongxing WXT Equipment Company, Ltd.	Shareholder of the Company's parent company	27941498X
Xi'an Microelectronics Technology Research Institute	Shareholder of the Company's parent company	H0420141-X
Shenzhen Zhongxing Information Technology Co., Ltd.	Investee of shareholders of the Company's parent	715233457
Shenzhen Gaodonghua Communication Technology Co., Ltd.	Investee of shareholders of the Company's parent	74323392-1
Shenzhen Zhongxing Development Co., Ltd.	Investee of shareholders of the Company's parent	75048467-3
Shenzhen Shenglongfeng Industrial Co., Ltd.	Investee of shareholders of the Company's parent	72619249-4
北京協力超越科技有限公司	Holding company of the shareholder of the Company's parent company	76678817-X
深圳市中興管理諮詢有限公司	Investee of shareholders of the Company's parent	66709323-3
Shenzhen Zhongxing International Investment Company Limited	Investee of shareholders of the Company's parent	77878419-2
Lishan Microelectronics Corporation	The Company's shareholder	43523013-9
Jilin Posts and Telecommunications Equipment Company	The Company's shareholder	12391552-6
Hunan Nantian (Group) Company, Limited	The Company's shareholder	18380498-2
Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	Under the same parent company as the Company	75049913-8
Zhongxing Xinzhou Complete Equipment Co., Ltd	Under the same parent company as the Company	78390928-7
深圳市聚飛光電有限公司	The Company's associate	77987106-0
Wuxi KaiEr Technology Company, Limited	The Company's associate	76828981-7
Shenzhen Weigao Semiconductor Company, Limited	The Company's associate	76346680-2
ZTE IC Design Co., Ltd	The Company's associate	71528448-1
Shenzhen Decang Technology Company Limited	The Company's associate	77162861-3
Shenzhen Smart Electronics Company, Limited	The Company's associate	77412852-6
Shenzhen Zhongxing Xinyu FPC Company, Limited	The Company's associate	75252829-7
深圳市富德康電子有限公司	The Company's associate	78924272-7
中興軟件技術（南昌）有限公司	The Company's associate	77585307-6
Chung Hing (Hong Kong) Development Limited	Company controlled by key management personnel of the Company	N/A
Beijing Zhongxing Intelligent Transportation Systems Ltd.	Company controlled by key management personnel of the Company	72260457-8
深圳市聚賢投資有限公司	Company controlled by key management personnel of the Company	72717233-X
Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Company controlled by key management personnel of the Company	71522427-8
深圳市鼎力網絡有限公司	The Company's associate	77717887-9

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VIII. THE RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (Continued)

4. Major transactions between the group and related companies:

(1) Sales of goods to the related parties:

	Six months ended 30 June 2008	Six months ended 30 June 2007
Shenzhen Zhongxing Information Technology Co., Ltd	**2,812**	1,994
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	**126**	—
ZTE IC Design Co., Ltd	**17**	2,475
Shenzhen Zhongxing WXT Equipment Company, Ltd.	**—**	833
Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	**77**	85
中興軟件技術（南昌）有限公司	**20,956**	116
Shenzhen Zhongxing Xinyu FPC Company, Limited	**1**	245
Shenzhen Smart Electronics Company, Limited.	**—**	269
Shenzhen Zhongxing Development Co., Ltd	**—**	847
Beijing Zhongxing Intelligent Transportation Systems Ltd.	**14,638**	2,543
Shenzhen Weigao Semiconductor Company, Limited	**9,629**	—
	48,256	9,407

The sales to related parties accounted for 0.24% of the group's total sales. (Six months ended 30 June 2007: 0.06%).

(2) Purchase of Goods from connected parties:

	Six months ended 30 June 2008	Six months ended 30 June 2007
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	**229,015**	207,958
Shenzhen Zhongxing WXT Equipment Company, Ltd.	**51,679**	52,139
Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	**88,818**	56,100
Shenzhen Zhongxing Information Technology Co., Ltd	**8,438**	6,280
Xi' an Microelectronics Technology Research Institute	**4,691**	3,159
Shenzhen Zhongxing Xinyu FPC Company, Limited	**16,742**	6,116
Mobi Antenna Technologies (Shenzhen) Co., Ltd.	**80,241**	128,666
Shenzhen Decang Technology Company Ltd.	**12,467**	8,109
深圳市鼎力網絡有限公司	**646**	—
深圳市富德康電子有限公司	**17,627**	—
深圳市聚飛光電有限公司	**4,429**	10,763
Shenzhen Shenglongfeng Industrial Co., Ltd	**3,460**	—
Shenzhen Weigao Semiconductor Company, Limited	**4,354**	—
ZTE IC Design Co., Ltd	**19,393**	40,618
Zhongxing Xinzhou Complete Equipment Co., Ltd.	**24,340**	—
Shenzhen Smart Electronics Company, Ltd.	**164**	465
Wuxi KaiEr Technology Company, Limited	**12,689**	15,647
中興軟件技術（南昌）有限公司	**—**	1,503
	579,193	537,523

The purchase from related parties accounted for 5.09% of the group's total purchase. (Six months ended 30 June 2007: 4.74%).

NOTES TO FINANCIAL STATEMENTS

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

VIII. THE RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (Continued)

4. Major transactions between the group and related companies: (Continued)

(3) Leasing property from related parties:

	Six months ended 30 June 2008	Six months ended 30 June 2007
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	**14,082**	5,434
Shenzhen Zhongxing Development Co., Ltd.	**15,958**	5,973
	30,040	11,407

(4) Other major related transaction

	Six months ended 30 June 2008		Six months ended 30 June 2007	
	amount	**percentage**	amount	percentage
Salary of key management personnel	**3,173**	**0.11%**	3,348	0.12%

Notes:

i. Sales of goods to related parties: Goods were sold to connected parties by the group at market price during the period.

ii. Purchase of materials from related parties: Goods were purchase by the group from related parties at market price during the period.

iii. Leasing property to related parties: Properties were leased to related parties by the group at RMB40-115 per square metre during the period.

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(Prepared under PRC ASBEs)
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VIII. THE RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (Continued)

5. Amounts due from/to related parties

Item	Names of related parties	As at 30 June 2008	As at 31 December 2007
Trade payables	Shenzhen Smart Electronics Company, Limited.	**60**	191
	Zhongxing Xinzhou Complete Equipment Co., Ltd.	**5,783**	4,118
	Shenzhen Zhongxingxin Telecommunication Equipment Company, Limited	**107,831**	88,023
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	**11,279**	14,918
	Shenzhen Zhongxing Information Technology Co., Ltd.	**10,403**	12,612
	Shenzhen Zhongxing Xinyu FPC Company, Limited	**6,348**	3,642
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	**1,374**	1,734
	Shenzhen Gaodonghua Communication Technology Co., Ltd.	**176**	176
	ZTE IC Design Co., Ltd	**6,475**	5,254
	Shenzhen Decang Technology Company Limited	**4,550**	7,055
	Wuxi KaiEr Technology Company, Limited	**3,113**	6,342
	Mobi Antenna Technologies (Shenzhen) Co., Ltd	**30,779**	41,367
	深圳市富德康電子有限公司	**7,628**	7,530
	Shenzhen Weigao Semiconductor Company, Limited	**2,417**	1,686
	Shenzhen Shenglongfeng Industrial Co., Ltd.	**2,077**	1,014
	Xi'an Microelectronics Technology Research Institute	**1,420**	345
	中興軟件技術（南昌）有限公司	**–**	422
		201,713	196,429
Other payables	Lishan Microelectronics Corporation	**65**	65
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	**12**	12
	Shenzhen Zhongxingxin Telecommunication Equipment Company, Limited	**308**	–
	Jilin Posts and Telecommunications Equipment Company	**65**	65
	Shenzhen Zhongxing Information Technology Co., Ltd.	**48**	48
	Shenzhen Smart Electronics Company, Ltd.	**–**	300
	Hunan Nantian (Group) Company, Limited	**130**	130
	Shenzhen Zhongxing International Investment Company Limited	**66**	–
	Shenzhen Zhongxing Development Co., Ltd.	**215**	–
	深圳市聚賢投資有限公司	**34**	4,706
		943	5,326

NOTES TO FINANCIAL STATEMENTS

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

VIII. THE RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (Continued)

5. Amounts due from/to related parties (Continued)

Item	Names of related parties	As at 30 June 2008	As at 31 December 2007
Bills payable	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	116	12,481
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	146	1,184
	Shenzhen Smart Electronics Company, Ltd.	—	234
	Shenzhen Decang Technology Company Limited	4,925	8,623
	Wuxi KaiEr Technology Company, Limited	1,413	784
	深圳市富德康電子有限公司	223	—
	Shenzhen Weigao Semiconductor Company, Limited	195	—
	Shenzhen Zhongxing Xinyu FPC Company, Limited	340	12
		7,358	23,318
Prepayments	ZTE IC Design Co., Ltd	—	182
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	23	—
	南京創碼科技有限責任公司	1,640	—
	Shenzhen Zhongxing Information Technology Co., Ltd.	3,608	3,608
		5,271	3,790
Other receivables	Shenzhen Zhongxing Development Co., Ltd.	7	7
	Wuxi KaiEr Technology Company, Limited	6	6
		13	13
Trade receivables	Shenzhen Zhongxingxin Telecommunication Equipment Company, Limited	943	943
	Shenzhen Zhongxing Information Technology Co., Ltd.	3,969	194
	Xi'an Microelectronics Technology Research Institute	9	9
	ZTE IC Design Co., Ltd	5	—
	中興軟件技術（南昌）有限公司	78	200
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	54	54
	Zhongxing Xinzhou Complete Equipment Co., Ltd.	—	129
	Beijing Zhongxing Intelligent Transportation Systems Ltd.	17,874	78
	Shenzhen Weigao Semiconductor Company, Limited	392	—
	深圳市聚飛光電有限公司	23	23
		23,347	1,630

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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VIII. THE RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (Continued)

5. Amounts due from/to related parties (Continued)

Item	Names of related parties	30 June 2008	31 December 2007
Receipt in advance	Shenzhen Weigao Semiconductor Company, Limited	4,644	4,644
	Shenzhen Zhongxing Information Technology Co., Ltd.	—	12
	北京協力超越科技有限公司	—	10
	Beijing Zhongxing Intelligent Transportation Systems Ltd.	—	59
	Xi'an Microelectronics Technology Research Institute	—	2
		4,644	4,727
Dividend receivable	Shenzhen Zhongxing Xinyu FPC Company Limited	1,135	2,271
Dividend payable	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	2,813	—
	Shenzhen Zhongxing WXT Equipment Company Limited	12,087	12,087
	深圳市聚賢投資有限公司	47,264	27,464
		62,164	39,551

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

IX. CONTINGENT EVENTS

1. In November 2005, a customer brought a lawsuit against the Company and a subsidiary of the Group, for a claim in sum of RMB71,000,000 comprising RMB35,000,000 as refund of advance payment and RMB36,000,000 as accrued interest and compensation for other losses. As at the date of approval of these financial statements, two trials had been conducted by the trial court in the first instance and a written request for instruction had been filed to the Supreme People's Court. No verdict has been awarded as of now. As the case is still pending, it is difficult at this stage to predict the final outcome of the trial with any reasonable certainty. A real estate owned by the Company, which is located in Nanjing with an original value of RMB117,200,000, is pledged for the litigation. During the reporting period, the trial court of the case lifted the order of freezing the Company's cash in bank and on hand of RMB31,000,000, and the Company has not paid any compensation regarding the litigation. In the opinion of the directors, based on the legal advice of the lawyers engaged by the Company, the aforesaid litigation and guarantee will not have any material adverse effect on the Group's financial position and operating performance in the period.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
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IX. CONTINGENT EVENTS (Continued)

2. On 16 December 2005, an arbitration application was made by a supplier against the Company in respect of claims for breach of contract and infringement of intellectual property rights in sum of approximately US$36,450,000 (equivalent to approximately RMB250,014,000). As at the approval date of these financial statements, the lawyers of both parties of the case submitted evidence to the arbitration tribunal and commenced initial negotiations. As the arbitration tribunal has not started the trial and given any ruling, it is difficult at this stage to predict the final outcome of the arbitration with any reasonable certainty. Therefore, the Group does not pay any compensation regarding the arbitration. In the opinion of the directors, based on legal advice from the Company's lawyer engaged for the action, the aforesaid arbitration would not have a material adverse impact on the Group's financial position and operating performance in the period.

3. In August 2006, a customer commenced an arbitration against the Company, for a claim of PKR 762,982,000 (equivalent to approximately RMB76,542,000) for the Company's breach of contract. The Company also filed a counter claim against the customer for its breach of contract. An arbitration decision has been awarded against the Company in February 2008 ruling that PKR 328,040,000 (equivalent to approximately RMB32,909,000) should be paid by the Company. Pursuant to the laws of the country, the Company appealed to the higher court to object to the decision awarded. As at the approval date of these financial statements, no compensation has been paid regarding the arbitration. The Company has set aside a provision in the financial statement of year 2007 based on the arbitration decision. In the opinion of the directors, based on legal advice of the Company's lawyer engaged for this action, the aforesaid arbitration would not have a material adverse impact on the Group's financial position and operating performance in the period.

4 In July 2008, an agent filed an application for arbitration against the Company demanding the payment of a total of US$35,819,000 (equivalent to approximately RMB245,686,000) in agency fees and interests. As at the approval date of these financial statements, trial of the case has not yet commenced and no compensation has been paid by the Company regarding the arbitration. Based on the legal opinion furnished by the Company's legal department, the Directors are of the opinion that the above litigation will not have any material adverse impact on the Group's financial position and operating results of the current period.

5. As at 30 June 2008, the Group had outstanding guarantees given to banks in respect of performance bonds amounting to RMB4,128,067,000.

X. OPERATING LEASE ARRANGEMENTS

Significant operating lease:

According to the lease contract signed with lessor, the group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2008	31 December 2007
Within one year (including first year)	**248,532**	183,471
In the first to second years (including second year)	**131,655**	122,686
In the second to third years (including third year)	**32,988**	42,266
After third years	**31,409**	44,641
	444,584	393,064

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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XI. COMMITMENTS

	30 June 2008	31 December 2007
Capital commitments		
Contracted but not provided for	**409,431**	582,263
Investment commitments		
Contracted but not implemented completely	**253,951**	255,234

XII. FINANCIAL INSTRUMENTS AND RISKS ANALYSIS

Financial risk management objective and policies

The main financial instruments of the group, except for Derivatives, also include bank loans, cash in bank and on hand etc. The main purpose of these financial instruments is to finance the group's operation. The group has many other financial assets and liabilities directly from operation, such as trade receivables and trade payables etc.

The Group entered into forward currency contracts for a purpose of managing the foreign exchange risk in the group's operation.

The main risks arising from the Group's financial instruments are the credit risk, liquidity risk and market risk. The Board has considered and approved a policy to manage these risks, and they are summarised as follows:

Credit risk

Credit risk is the risk arising from losses to a party due to default of the counterparty.

The credit risk of the group is mainly related to trade receivables. The Group only trades with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For offshore transactions, the group does not offer business credit unless the special permission from the credit control department has been obtained.

The Group's other financial assets comprise cash in bank and on hand, available-for-sale financial assets, and certain derivatives. The Group's credit risk of financial assets and financial guarantee contract arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Despite that the top five arrears account for 24.20% of the total trade receivables, the group does not have significant credit risk due to the relevant risk remaining low.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

The further quantitative data for the credit risk that is reflected in trade receivables, other receivables and long-term trade receivables by the group, will be disclosed in relevant financial report notes.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
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XII. FINANCIAL INSTRUMENTS AND RISKS ANALYSIS (Continued)

Financial risk management objective and policies (Continued)

Liquidity risk

Liquidity risk is that enterprises may face difficulty to raise sufficient funds to repay the debt that related with financial instruments risks. Liquidity risks may arise from financial assets which can not be sold as soon as possible at fair value, or the situation where the other party is unable to pay its contractual obligations, or debt obligations that mature earlier, or the unexpected insufficient cash flow.

The group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables bank loans) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans. It is the Group's policy that all borrowings mature in less than one year. On 30 June 2008, the 76.73% of the Group's debt (31 December 2007: 67.86%) is due less than one year.

The following table summarised the maturity analysis of financial assets according to the remaining maturity date.

30 June 2008	Book Value	Due	Within one year	1 to 2 years	2 to 3 years	After 3 years
Cash in bank and on hand	7,704,779	7,578,881	125,898	–	–	–
Derivative financial assets	76,993	–	76,993	–	–	–
Bills receivable	2,202,896	2,202,896	–	–	–	–
Trade receivables and long-term trade receivables	9,862,875	7,281,646	1,999,816	373,255	98,429	109,729
Factored trade receivables and factored long-term trade receivables	3,029,699	3,029,699	–	–	–	–
Other receivables	662,359	662,359	–	–	–	–
Available-for-sale financial assets	43,464	43,464	–	–	–	–
	23,583,065	20,798,945	2,202,707	373,255	98,429	109,729

NOTES TO FINANCIAL STATEMENTS

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

XII. FINANCIAL INSTRUMENTS AND RISKS ANALYSIS (Continued)

Financial risk management objective and policies (Continued)

Liquidity risk (Continued)

31 December 2007	Book Value	Due	Within one year	1 to 2 years	2 to 3 years	After 3 years
Cash in bank and on hand	6,483,170	6,309,749	173,421	–	–	–
Derivative financial assets	123,644	–	123,644	–	–	–
Bills receivable	1,656,258	1,656,258	–	–	–	–
Trade receivables and long-term trade receivables	7,679,956	5,158,593	1,940,356	437,777	48,160	95,070
Factored trade receivables and factored long-term trade receivables	3,296,377	3,296,377	–	–	–	–
Other receivables	689,889	689,889	–	–	–	–
Available-for-sale financial assets	43,464	43,464	–	–	–	–
	19,972,758	17,154,330	2,237,421	437,777	48,160	95,070

NOTES TO FINANCIAL STATEMENTS

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

XII. FINANCIAL INSTRUMENTS AND RISKS ANALYSIS (Continued)

Financial risk management objective and policies (Continued)

Liquidity risk (Continued)

The following table summarised the maturity analysis of financial assets according to the remaining maturity date:

30 June 2008	Book value	Due	Within one year	1 to 2 years	2 to 3 years	After 3 years
Bank loans	7,794,423	–	5,980,722	1,577,040	1,851	234,810
Bank advances on trade receivables and long-term trade receivables	3,029,699	3,029,699	–	–	–	–
Derivative financial liabilities	30,859	30,859	–	–	–	–
Bills payable	3,927,848	3,927,848	–	–	–	–
Trade payables	8,017,361	8,017,361	–	–	–	–
Salary and welfare payables	975,308	975,308	–	–	–	–
Tax payable (excluding income tax)	(1,849,675)	(1,849,675)	–	–	–	–
Dividend payable	299,004	299,004	–	–	–	–
Other payables (excluding prepaid expense)	999,006	999,006	–	–	–	–
Financial guarantee contract	3,689	–	–	–	–	3,689
Provision for retirement benefits	34,408	–	–	–	–	34,408
	23,261,930	15,429,410	5,980,722	1,577,040	1,851	272,907

NOTES TO FINANCIAL STATEMENTS

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

XII. FINANCIAL INSTRUMENTS AND RISKS ANALYSIS (Continued)

Financial risk management objective and policies (Continued)

Liquidity risk (Continued)

31 December 2007	Book value	Due	Within one year	1 to 2 years	2 to 3 years	After 3 years
Bank loans	6,488,653	–	4,403,424	1,095,398	221,498	768,333
Bank advances on trade receivables and long-term trade receivables	3,296,377	3,296,377	–	–	–	–
Derivative financial liabilities	7,876	7,876	–	–	–	–
Notes payable	3,946,429	3,946,429	–	–	–	–
Trade payables	7,856,240	7,856,240	–	–	–	–
Salary and welfare payables	1,241,839	1,241,839	–	–	–	–
Tax payable (excluding income tax)	(1,741,832)	(1,741,832)	–	–	–	–
Dividend payable	41,180	41,180	–	–	–	–
Other payables (excluding prepaid expense)	1,015,234	1,015,234	–	–	–	–
Financial guarantee contract	3,689	–	–	–	–	3,689
Provision for retirement benefits	34,408	–	–	–	–	34,408
	22,190,093	15,663,343	4,403,424	1,095,398	221,498	806,430

Interest rate risk

Interest rate risk is the risk that the fair value/future cash flow of a financial instrument will fluctuate because of changes in market interest rate.

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

On 31 December 2007, the bank loans of the Group and the Company including fixed rate debts and floating debts based on LIBOR. The Group and the Company have no significant concentration of interest rate risk.

The Group's interest risk policy is to manage interest risk by maintaining an appropriate mix of fixed and variable rate instruments. It is the Group's policy to maintain the fixed interest rate between 2% and 11.5%. On 30 June 2008, approximately 19.26% (2007: 61%) of the Group's interest-bearing borrowings was at fixed rates.

NOTES TO FINANCIAL STATEMENTS

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

XII. FINANCIAL INSTRUMENTS AND RISKS ANALYSIS (Continued)

Financial risk management objective and policies (Continued)

Interest rate risk (Continued)

All of the interest-bearing borrowings with floating interest rate are in US$. If the bank loan interest rate and the variable rate generally increase/decrease by 0.25%, the Group's profit before tax and owner's equity will accordingly decrease/increase by RMB11.03 million and RMB2.9 million for the half year ended 30 June 2008 and the year ended 31 December 2007 respectively.

Foreign currency risk

Foreign currency risk is the risk of volatility in fair values of financial tools or future cash flow loss resulting from changes in foreign currency exchange rates.

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is predominately in US$ and RMB and certain portion of the bank loans is denominated in US$. As the Group enters into purchase and sales contracts, the Group tends to accept terms for avoiding foreign currency exchange risk or income distribution. The Group takes on-going forecast on foreign currency revenue and expenses and matches the currency with amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation.

The following table demonstrates how sensitively a reasonably possible change in interest rates may lead to the changes in the Group's profit before tax and owners' equity, with all other variables held constant.

	US dollars exchange rate increase/decrease	Effect on the Group's profit before tax and owners' equity
January to June 2008	**5%**	**82,346**
	-5%	**(82,346)**
January to June 2007	5%	20,172
	-5%	(20,172)

XIII. POST BALANCE SHEET EVENT

The Company's plan in 2007 to increase its capital by way of capitalisation of capital reserves was implemented on 10 July 2008, whereby 4 shares were created for every 10 shares held on the basis of the existing total share capital of 959,521,650 shares. After the implementation, the total share capital has increased to 1,343,330,310 shares.

XIV. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 August 2008.

SUPPLEMENTARY INFORMATION

Unit: RMB in thousands
(Expressed in RMB thousands unless otherwise specified)

I. RECONCILIATION OF DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER PRC ASBES AND UNDER HKFRSS

There were no significant differences between financial statements prepared under PRC ASBEs and under HKFRSs for the period. Ernst & Young is the Company's foreign auditor

II. RETURN ON NET ASSETS AND EARNINGS PER SHARE

	Return on net assets		Earnings per share (RMB)	
	Fully diluted	**Weighted average**	**Basic**	**Diluted**
Net profit attributable to holders of ordinary shares of the Company	4.27%	4.37%	0.41	0.41
Net profit after extraordinary items attributable to holders of ordinary shares of the Company	4.18%	4.28%	0.41	0.40

Including: Net profit after extraordinary items attributable to holders of ordinary shares of the Company

	Six months ended 30 June 2008	Six months ended 30 June 2007
Net profit attributable to holders of ordinary shares of the Company	**557,386**	459,840
Add/(less):		
Non-operating income	**(43,564)**	(17,757)
Non-operating expenses	**29,824**	48,211
Effect of income tax	**2,061**	(4,568)
Net profit after extraordinary items	**545,707**	485,726
Less: Net effect of extraordinary items attributable to minority interests	**—**	—
Net profit after extraordinary items attributable to holders of ordinary shares of the Company	**545,707**	485,726

Extraordinary items are recognised in accordance with No. 1 of "Q&A on Information Disclosure Standards for Companies with Publicly Issued Securities" (CSRC Kuai Ji Zi [2007] No. 9).

SUPPLEMENTARY INFORMATION

Unit: RMB in thousands
(Expressed in RMB thousands unless otherwise specified)

III. ANALYSIS OF CHANGE IN THE FIGURES OF VARIOUS ITEMS IN THE FINANCIAL STATEMENT

Balance sheet items	Analysis of reasons
Derivative financial assets	Mainly attributable to settlement of forward currency transactions
Bills receivables	Mainly attributable to increased sales and a favourable collection method provided by the Company
Trade receivables	Mainly attributable to increased sales and a favourable collection method offered to customers
Development expenses	Mainly attributable to the increase in capitalisation of research and development expenses
Short-term loans	Mainly attributable to the increase in loans so as to satisfy liquidity requirement and avoid foreign exchange risk
Derivative financial liabilities	Mainly attributable to the change in fair value of forward currency transactions
Amount due to customers for contract work	Mainly attributable to accelerated progress of construction contract
Advances from customers	Mainly attributable to increased sales and increase in advances from customers
Dividend payable	Mainly attributable to the increase in dividend payable that has not been paid
Deferred income	Mainly attributable to the decrease in deferred recognition of governmental subsidies
Deferred income tax liabilities	Mainly because taxable temporary difference was generated from the issue of bonds cum warrants
Proposed final dividend	Mainly because final dividend for the period has not been paid
Foreign currency translation differences	Mainly attributable to exchange rate fluctuations

Income statement items	Analysis of reasons
Operating costs	Mainly attributable to increased sales and slight increase in cost ratio
Finance costs	Mainly attributable to increased interest expenses in line with increased loans
Assets impairment losses	Mainly attributable to the increase in bad debt provision
Gains from change in fair values	Mainly attributable to the decrease in fair value of forward currency transactions
Investment income	Mainly attributable to the increase in gain from disposal of subsidiaries and settlement of forward currency transactions
Non-operating expenses	Mainly attributable to the decrease in losses and penalty expenses for disposal of fixed assets and obsolete materials
Income tax	Mainly attributable to the new Enterprise Income Tax Law and the expiry of tax holiday for some subsidiaries

CONSOLIDATED INCOME STATEMENT

(Prepared under HKFRSs)
For the six months ended 30 June 2008

	Note	**Six months ended 30 June 2008 (Unaudited) RMB'000**	Six months ended 30 June 2007 (Unaudited) RMB'000
Revenue	4	**19,728,984**	15,231,932
Cost of sales		**(13,319,284)**	(9,842,007)
Gross profit		**6,409,700**	5,389,925
Other income and gains	4	**509,624**	411,715
Research and development costs		**(1,647,898)**	(1,521,489)
Selling and distribution costs		**(2,666,047)**	(2,484,303)
Administrative expenses		**(1,091,232)**	(912,470)
Other expenses		**(333,788)**	(154,357)
Finance costs	6	**(321,591)**	(119,877)
Share of profits and losses of:			
Jointly-controlled entities		**—**	649
Associates		**9,874**	1,058
PROFIT BEFORE TAX	5	**868,642**	610,851
Tax	7	**(199,216)**	(55,444)
PROFIT FOR THE PERIOD		**669,426**	555,407
Attributable to:			
Equity holders of the parent		**557,386**	459,840
Minority interests		**112,040**	95,567
		669,426	555,407
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		**RMB0.41**	RMB0.34
Diluted		**RMB0.41**	RMB0.34

CONSOLIDATED BALANCE SHEET

(Prepared under HKFRSs)
As at 30 June 2008

	Note	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) (Restated) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**4,721,884**	3,954,809
Deposit for land premium		**—**	28,000
Prepaid land premiums/land lease payments		**57,511**	58,357
Intangible assets		**495,942**	443,777
Investments in jointly-controlled entities		**2,186**	2,255
Investments in associates		**149,628**	134,764
Available-for-sale investments		**43,464**	43,464
Long-term trade receivables	11	**581,413**	581,007
Factored long-term trade receivables		**2,875,777**	3,142,709
Deferred tax assets		**392,792**	352,210
Total non-current assets		**9,320,597**	8,741,352
CURRENT ASSETS			
Prepaid land premiums/land lease payments		**1,625**	1,543
Inventories		**4,982,210**	5,363,430
Amount due from customers for contract work	10	**10,800,623**	8,606,291
Trade and bills receivables	11	**11,484,358**	8,755,207
Factored trade receivables		**153,922**	153,668
Prepayments, deposits and other receivables		**2,930,953**	2,792,626
Loan receivables		**—**	13,466
Derivative financial instruments		**76,993**	123,644
Pledged bank deposits		**125,898**	173,421
Cash and cash equivalents		**7,578,881**	6,309,749
Total current assets		**38,135,463**	32,293,045
CURRENT LIABILITIES			
Trade and bills payables	12	**11,945,209**	11,802,669
Amount due to customers for contract works	10	**901,888**	1,597,314
Other payables and accruals		**5,338,555**	4,337,861
Interest-bearing bank borrowings		**5,980,722**	4,403,424
Bank advances on factored trade receivables		**153,922**	153,668
Tax payable		**570,048**	399,502
Derivative financial instruments		**30,859**	7,876
Dividend payables		**299,004**	41,180
Total current liabilities		**25,220,207**	22,743,494
NET CURRENT ASSETS		**12,915,256**	9,549,551
TOTAL ASSETS LESS CURRENT LIABILITIES		**22,235,853**	18,290,903

CONSOLIDATED BALANCE SHEET

(Prepared under HKFRSs)
As at 30 June 2008

	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) (Restated) RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES	**22,235,853**	18,290,903
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**1,813,701**	2,085,229
Bank advances on factored long-term trade receivables	**2,875,777**	3,142,709
Financial guarantee contract	**3,689**	3,689
Provision for retirement benefits	**34,408**	34,408
Bonds payable	**3,426,855**	—
Deferred tax liabilities	**130,765**	56,460
Other long-term payables	**80,000**	80,000
Total non-current liabilities	**8,365,195**	5,402,495
Net assets	**13,870,658**	12,888,408
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	**959,522**	959,522
Reserves	**11,623,237**	10,937,759
Equity component in bonds cum warrants	**468,832**	—
Proposed final dividend	**—**	239,880
	13,051,591	12,137,161
Minority interests	**819,067**	751,247
Total equity	**13,870,658**	12,888,408

Director: Hou Weigui

Director: Yin Yimin

* Deferred tax assets and deferred tax liabilities have been separately presented.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared under HKFRSs)
For the six months ended 30 June 2008

	Attributable to equity holders of the parent										
	Issued capital (Unaudited) RMB'000	Equity component of bonds cum warrants (Unaudited) RMB'000	Capital reserve (Unaudited) RMB'000	Share incentive scheme reserve (Unaudited) RMB'000	Statutory reserve (Unaudited) RMB'000	Exchange fluctuation reserve (Unaudited) RMB'000	Retained profit (Unaudited) RMB'000	Proposed final dividend (Unaudited) RMB'000	Total (Unaudited) RMB'000	Minority interests (Unaudited) RMB'000	Total equity (Unaudited) RMB'000
At 1 January 2008	**959,522**	**–**	**5,507,184**	**300,148**	**1,364,758**	**(65,562)**	**3,831,231**	**239,880**	**12,137,161**	**751,247**	**12,888,408**
Exchange realignments and other income recognised directly in equity	–	–	–	–	–	(20,742)	–	–	(20,742)	–	(20,742)
Total income and expense for the year recognised directly in equity	–	–	–	–	–	(20,742)	–	–	(20,742)	–	(20,742)
Profit for the period	–	–	–	–	–	–	557,386	–	557,386	112,040	669,426
Total income and expense for the period	–	–	–	–	–	(20,742)	557,386	–	536,644	112,040	648,684
Final 2007 dividend declared	–	–	–	–	–	–	–	(239,880)	(239,880)	–	(239,880)
Transfer from retained profits	–	–	–	–	42,541	–	(42,541)	–	–	–	–
Dividends declared to minority shareholders	–	–	–	–	–	–	–	–	–	(48,574)	(48,574)
Capital contributions by minority shareholders	–	–	–	–	–	–	–	–	–	4,354	4,354
Equity settled share expense	–	–	–	148,834	–	–	–	–	148,834	–	148,834
Issue bonds cum warrants	–	468,832	–	–	–	–	–	–	468,832	–	468,832
At 30 June 2008	**959,522**	**468,832**	**5,507,184**	**448,982**	**1,407,299**	**(86,304)**	**4,346,076**	**–**	**13,051,591**	**819,067**	**13,870,658**
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 realignments and other income recognised directly in equity	–	–	–	–	–	(8,264)	–	–	(8,264)	–	(8,264)
Total income and expense for the year recognised directly in equity	–	–	–	–	–	(8,264)	–	–	(8,264)	–	(8,264)
Profit for the period	–	–	–	–	–	–	459,840	–	459,840	95,567	555,407
Total income and expense for the period	–	–	–	–	–	(8,264)	459,840	–	451,576	95,567	547,143
Final 2006 dividend declared	–	–	–	–	–	–	–	(143,928)	(143,928)	–	(143,928)
Dividends declared to minority shareholders	–	–	–	–	–	–	–	–	–	(3,598)	(3,598)
Capital contributions by minority shareholders	–	–	–	–	–	–	–	–	–	9,565	9,565
Equity settled share expense	–	–	–	148,834	–	–	–	–	148,834	–	148,834
At 30 June 2007	959,522	–	5,507,184	151,314	1,331,059	(41,144)	3,312,492	–	11,220,427	663,426	11,883,853

CONSOLIDATED CASH FLOW STATEMENT

(Prepared under HKFRSs)
For the six months ended 30 June 2008

	Six months ended 30 June 2008 (Unaudited) RMB'000	Six months ended 30 June 2007 (Unaudited) RMB'000
Net cash outflow from operating activities	**(3,495,502)**	(363,620)
Net cash outflow from investing activities	**(555,363)**	(635,376)
Net cash inflow from financing activities	**5,267,214**	2,349,667
Net increase in cash and cash equivalents	**1,216,349**	1,350,671
Cash and cash equivalents at beginning of period	**6,309,749**	4,142,063
Effect of foreign exchange rate changes, net	**52,783**	(3,189)
Cash and cash equivalents at end of period	**7,578,881**	5,489,545
Analysis of balance of cash and cash equivalents:		
Cash and bank balances	**6,621,992**	4,789,545
Unsecured time deposits with a maturity of less than three months	**956,889**	700,000
	7,578,881	5,489,545

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under HKFRSs)
30 June 2008

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 year, the Company and its subsidiaries (the "Group") were principally involved in the design, development, manufacture and sale of telecommunications system equipment, mobile terminal products 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.

2.1 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 include HKASs and Interpretations) that affect the Group, 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 audited financial statements for the year ended 31 December 2007.

HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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.

2.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSS

The Group has not early applied the following new and revised standards, amendments and interpretations, that have been issued but are not yet effective, in these condensed consolidated interim financial statements.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKFRS 2 (Amendment)	Share-based Payment — Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combination[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-INT 13	Customer Loyalty Programmes[3]

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under HKFRSs)
30 June 2008

2.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSS (Continued)

1 Effective for annual periods beginning on or after 1 January 2009.
2 Effective for annual periods beginning on or after 1 July 2009.
3 Effective for annual periods beginning on or after 1 July 2008.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. The Directors of the group expect that while the adoption of HKAS 1 (revised) and HKFRS 8 may result in new or amended disclosures. These standards, amendments and interpretations are unlikely to have a significant impact on the Group's results of operations and financial position.

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. Summary 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, circuitswitches 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 and wireless local access (PHS) handsets.

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

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under HKFRSs)
30 June 2008

3. SEGMENT INFORMATION (Continued)

An analysis of the Group's revenue and profit by business and geographical segments for the six months ended 30 June 2007 and 2008 is as follows:

(a) Business segments

	Wireless communications Six months ended 30 June		Wireline switch and access Six months ended 30 June		Optical and data communications Six months ended 30 June		Handsets Six months ended 30 June		Telecommunications software systems services and other products Six months ended 30 June		Consolidated Six months ended 30 June	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment revenue:												
Telecommunications systems contracts	**7,495,122**	6,801,448	**1,115,337**	592,150	**4,242,792**	2,545,361	**–**	–	**1,360,829**	991,461	**14,214,080**	10,930,420
Sale of goods and services	**–**	–	**–**	–	**–**	–	**4,294,615**	3,592,480	**1,220,289**	709,032	**5,514,904**	4,301,512
Total	**7,495,122**	6,801,448	**1,115,337**	592,150	**4,242,792**	2,545,361	**4,294,615**	3,592,480	**2,581,118**	1,700,493	**19,728,984**	15,231,932
Segment results	**1,499,886**	2,068,817	**200,023**	121,797	**957,748**	394,428	**648,304**	253,364	**437,692**	67,216	**3,743,653**	2,905,622
Interest and unallocated gain											**509,624**	411,715
Unallocated expenses											**(3,072,918)**	(2,588,316)
Finance costs											**(321,591)**	(119,877)
Share of profit and losses of:												
Jointly controlled entities											**–**	649
Associates											**9,874**	1,058
Profit before tax											**868,642**	610,851
Tax											**(199,216)**	(55,444)
Profit for the period											**669,426**	555,407

(b) Geographical segments

	PRC Six months ended 30 June		Asia (excluding the PRC) Six months ended 30 June		Africa Six months ended 30 June		Others Six months ended 30 June		Consolidated Six months ended 30 June	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment revenue:										
Telecommunications systems contracts	**6,265,192**	5,969,210	**4,222,209**	2,292,233	**2,761,605**	1,733,348	**965,074**	935,629	**14,214,080**	10,930,420
Sale of goods and services	**796,418**	1,292,125	**1,428,068**	1,687,770	**1,072,825**	116,845	**2,217,593**	1,204,772	**5,514,904**	4,301,512
	7,061,610	7,261,335	**5,650,277**	3,980,003	**3,834,430**	1,850,193	**3,182,667**	2,140,401	**19,728,984**	15,231,932

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under HKFRSs)
30 June 2008

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the aggregate of an appropriate proportion of contract revenue from telecommunications system contracts and the invoiced value of goods and services sold net of value-added tax ("VAT") and after allowances for goods returns and trade discounts. All significant intragroup transactions have been eliminated on consolidation.

An analysis of the Group's revenue and other income and gains is as follows:

	Six months ended 30 June 2008 RMB'000	Six months ended 30 June 2007 RMB'000
Revenue		
Telecommunications systems contracts	**14,214,080**	10,930,420
Sale of goods and services	**5,514,904**	4,301,512
	19,728,984	15,231,932

	Six months ended 30 June 2008 RMB'000	Six months ended 30 June 2007 RMB'000
Other income		
Government grants	**31,725**	33,663
VAT subsidies, exemptions and refunds#	**382,253**	323,324
Bank and other interest income	**53,806**	17,757
Others	**8**	2,863
	467,792	377,607
Gains		
Settlement of derivative financial instrument	**29,914**	—
Fair value gains on derivative instruments through profit or loss	**—**	24,810
Gain on disposal of equity investments at fair value through profit or loss	**—**	9,298
Disposal of gains received from subsidaries	**7,700**	—
Excess over the cost arising on the acquisition of minority interests	**2,723**	—
Dividends received	**1,495**	—
	41,832	34,108
	509,624	411,715

\# For the six months ended 30 June 2008, Shenzhen Zhongxing Software Company, Limited ("深圳市中興軟件有限責任公司"), and Nanjing Zhongxing Software Company, Limited (南京中興軟件有限責任公司), Shanghai Zhongxing Software Company, Limited (上海中興軟件有限責任公司) and Xi'an Zhongxing Software Company, Limited (西安中興軟件有限責任公司), 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%.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under HKFRSs)
30 June 2008

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June 2008 RMB'000	Six months ended 30 June 2007 RMB'000
Cost of inventories sold	**11,786,219**	9,622,112
Depreciation	**255,220**	253,327
Amortisation of intangible assets	**40,062**	26,300
Provision for bad and doubtful debts*	**168,191**	55,468
Provision for warranties**	**7,897**	(146,000)
Write-down of inventories to net realisable value**	**31,267**	66,533
Loss on disposal of items of property, plant and equipment*	**3,459**	5,683
Equity settled share expense	**148,834**	148,834

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

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

6. FINANCE COSTS

	Six months ended 30 June 2008 RMB'000	Six months ended 30 June 2007 RMB'000
Interest expenses on bank borrowings wholly repayable within five years	**165,120**	60,648
Finance costs on trade receivables factored and bills discounted	**97,517**	59,229
Interest expenses on bonds cum warrants	**58,954**	—
	321,591	119,877

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under HKFRSs)
30 June 2008

7. TAX

	Six months ended 30 June 2008 RMB'000	Six months ended 30 June 2007 RMB'000
Group:		
Current — Mainland China	**141,330**	39,242
Current — Overseas	**135,540**	55,279
Deferred tax	**(77,654)**	(39,077)
Total tax charge for the period	**199,216**	55,444

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. 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 new enterprise income tax law effective from 1 January 2008, the tax rate applicable to domestic invested enterprises and foreign-invested enterprises has been standardised at 25%.

The Company and its subsidiaries incorporated and operating in the PRC Shenzhen Special Economic Zone (SEZ) are subject to the State Council Circular on the Implementation of the Transitional Concession Policies for Corporate Income Tax (Guo Fa [2007] No. 39), which provides that enterprises previously entitled to concession policies of tax rate reductions shall have a grace period of 5 years to comply with the new statutory tax rates, commencing 1 January 2008 after the implementation of the new tax law. Enterprises entitled to a 15% corporate income tax rate will be subject to an 18% tax rate in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012. The Group is subject to the transitional tax rate for the current period in the calculation of taxation. As a hi-tech enterprise of Shenzhen, the Company is currently applying for the status of a national-grade hi-tech enterprise, to which an enterprise income tax rate of 15% shall apply.

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. Zhongxing Software is an Important Software Enterprise under the National Planning Layout and is subject to the currently applicable enterprise income tax rate of 10%.

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 a hi-tech enterprise in Shenzhen and is currently applying for the status of a national-grade hi-tech enterprise with an applicable enterprise income tax rate of 15%.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under HKFRSs)
30 June 2008

7. TAX (Continued)

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. ("ZTE Microelectronics"), as a manufacturing 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. ZTE Microelectronics is a hi-tech enterprise in Shenzhen and is currently applying for the status of a national-grade hi-tech enterprise with an applicable enterprise income tax rate of 15%.The current period was its fifth 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% in the current period.

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, it was agreed that 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. Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited is an enterprise providing advanced technology services in Shenzhen. The applicable enterprise income tax rate is 15%. Its first profitable year was in 2007 and the company was subject to an enterprise income tax of 7.5% in the current period.

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. The current year was the fourth profitable year and hence, the company was subject to a reduced enterprise income tax rate of 9% under the transitional tax rate of 18%.

Pursuant to the Income Tax Concession Approval Notice (Document Pu Shui Suo (2005) No. 672) issued by the Shanghai Pudong New Area State Tax Bureau and the Shanghai Pudong New Area Local Tax Bureau, it was agreed that Shanghai Zhongxing Telecom Equipment Technology & Service Company, Limited, as a hi-tech enterprise, was entitled to domestic enterprise income tax exemption from 1 January 2005 until 31 December 2006. The company was subject to an enterprise income tax rate of 18% in 2008.

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 from 1 January 2003 until 31 December 2007. The company was subject to an enterprise income tax rate of 18% in the current period.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under HKFRSs)
30 June 2008

7. TAX (Continued)

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 period was the fifth profitable year and the company was subject to a reduced enterprise income tax rate of 9% from the transitional rate of 18%.

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 period was the fifth profitable year and the company was subject to a reduced enterprise income tax rate of 9% from the transitional rate of 18%.

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. Shenzhen Zhongxing Liwei Technology Company, Limited is a hi-tech enterprise in Shenzhen and is currently applying for the status of a national-grade hi-tech enterprise with an applicable enterprise income tax rate of 15%.The current period 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 (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. The current period was the fourth profitable year and the company was subject to a reduced enterprise income tax rate of 9% from the transitional rate of 18%.

8. DIVIDEND

The Directors do not recommend any payment of interim dividend for the six months ended 30 June 2008 (2007: nil).

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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 period attributable to holders of the parent and the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the profit for the period attributable to ordinary equity holders of the parent, adjusted to take into account the interests of the bonds cum warrants. The weighted average number of shares used for calculation (as used in the basic earnings per share calculation) represents the number of ordinary shares issued during the period, assuming all bonds cum warrants are deemed to have been converted in full and the weighted average number of ordinary shares issued includes shares issued at no consideration on the deemed exercise of all potentially dilutive shares.

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

	Six months ended 30 June 2008	Six months ended 30 June 2007 (Restated)
Earnings		
Net profit attributable to ordinary equity holders of the Company for the period	**557,386**	459,840
Interests on potentially dilutive ordinary shares recognised as expenses for the period, net of tax	**50,111**	—
Income arising on conversion of potentially dilutive ordinary shares	**—**	—
Adjusted net profit attributable to ordinary equity holders of the Company for the period	**607,497**	459,840
Shares		
Weighted average number of ordinary shares of the Company in issue (including bonus shares)**	**1,343,330**	1,343,330
Diluting effect — weighted average number of ordinary shares:		
Restricted Shares under share incentive scheme	**9,596**	—
Bonds cum warrants	**27,167**	—
Adjusted weighted average number of ordinary shares of the Company in issue	**1,380,093**	1,343,330

* The amount of diluted earnings per shares has not been disclosed as bonds cum warrants had an anti-dilutive effect on the basic earnings per share for the period, since the inclusion of the bonds cum warrants will result in the increase of diluted earnings per share.

** The bonus shares in question were issued during the period between the balance sheet date and the date on which these financial reports were approved, and has been taken into account in the weighted average number of ordinary shares in issue.

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10. TELECOMMUNICATIONS SYSTEMS CONTRACTS

	30 June 2008 RMB'000	31 December 2007 RMB'000
Amount due from customers for contract works	**10,800,623**	8,606,291
Amount due to customers for contract works	**(901,888)**	(1,597,314)
	9,898,735	7,008,977
Contract costs incurred plus recognised profits less recognised losses to date	**25,176,658**	22,777,810
Less: progress billings	**(15,277,923)**	(15,768,833)
	9,898,735	7,008,977

11. TRADE AND BILLS 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 profile. The credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

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

	30 June 2008 RMB'000	31 December 2007 RMB'000
Within 6 months	**9,881,562**	8,153,438
7 to 12 months	**1,819,027**	954,568
1 to 2 years	**360,797**	221,696
2 to 3 years	**4,385**	6,512
Over 3 years	**—**	—
	12,065,771	9,336,214
Less: Current portion of trade and bills receivables	**(11,484,358)**	(8,755,207)
Long-term portion	**581,413**	581,007

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11. TRADE AND BILLS RECEIVABLES (Continued)

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

	30 June 2008 RMB'000	31 December 2007 RMB'000
The ultimate holding company	**943**	8
Jointly-controlled entities	**—**	194
Associates	**498**	152
Related companies	**21,906**	1,085
	23,347	1,439

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.

12. TRADE AND BILLS PAYABLES

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

	30 June 2008 RMB'000	31 December 2007 RMB'000
Within 6 months	**11,829,148**	11,564,337
7 to 12 months	**59,809**	167,747
1 to 2 years	**15,250**	30,528
2 to 3 years	**8,759**	12,151
Over 3 years	**32,243**	27,906
	11,945,209	11,802,669

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

	30 June 2008 RMB'000	31 December 2007 RMB'000
The ultimate holding company	**107,831**	88,023
Related companies	**63,553**	100,979
Associates	**37,687**	30,169
	209,071	219,171

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.

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13. 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:

	30 June 2008 RMB'000	31 December 2007 RMB'000
Guarantees given to banks in respect of performance bonds	**4,128,067**	5,093,486
	4,128,067	5,093,486

(b) In November 2005, a customer brought a lawsuit against the Company and a subsidiary of the Group, for a claim in sum of RMB71,000,000 comprising RMB35,000,000 as refund of advance payment and RMB36,000,000 as accrued interest and compensation for other losses. As at the date of approval of these financial statements, two trials had been conducted by the trial court in the first instance and a written request for instruction had been filed to the Supreme People's Court. No verdict has been awarded as of now. As the case is still pending, it is difficult at this stage to predict the final outcome of the trial with any reasonable certainty. A real estate owned by the Company, which is located in Nanjing with an original value of RMB117,200,000, is pledged for the litigation. During the reporting period, the trial court of the case lifted the order of freezing the Company's cash in bank and on hand of RMB31,000,000, and the Company has not paid any compensation regarding the litigation. In the opinion of the directors, based on the legal advice of the lawyers engaged by the Company, the aforesaid litigation and guarantee will not have any material adverse effect on the Group's financial position and operating performance in the period.

(c) On 16 December 2005, an arbitration application was made by a supplier against the Company in respect of claims for breach of contract and infringement of intellectual property rights in sum of approximately US$36,450,000 (equivalent to approximately RMB250,014,000). As at the approval date of these financial statements, the lawyers of both parties of the case submitted evidence to the arbitration tribunal and commenced initial negotiations. As the arbitration tribunal has not started the trial and given any ruling, it is difficult at this stage to predict the final outcome of the arbitration with any reasonable certainty. The Group has not paid any compensation regarding the arbitration. In the opinion of the directors, based on legal advice from the Company's lawyer engaged for the action, the aforesaid arbitration would not have a material adverse impact on the Group's financial position and operating performance in the period.

(d) In August 2006, a customer commenced an arbitration against the Company, for a claim of PKR 762,982,000 (equivalent to approximately RMB76,542,000) for the Company's breach of contract. The Company also filed a counter claim against the customer for its breach of contract. An arbitration decision has been awarded against the Company in February 2008 ruling that PKR 328,040,000 (equivalent to approximately RMB32,909,000) should be paid by the Company. Pursuant to the laws of the country, the Company appealed to the higher court to object to the decision awarded. As at the approval date of these financial statements, no compensation has been paid regarding the arbitration. The Company has set aside a provision in the financial statement of year 2007 based on the arbitration decision. In the opinion of the directors, based on legal advice of the Company's lawyer engaged for this action, the aforesaid arbitration would not have a material adverse impact on the Group's financial position and operating performance in the period.

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13. CONTINGENT LIABILITIES (Continued)

(e) In July 2008, an agent filed an application for arbitration against the Company demanding the payment of a total of US$35,819,000 (equivalent to approximately RMB245,686,000) in agency fees and interests. As at the approval date of these financial statements, trial of the case has not yet commenced and no compensation has been paid by the Company regarding the arbitration. Based on the legal opinion furnished by the Company's legal department, the Directors are of the opinion that the above litigation will not have any material adverse impact on the Group's financial position and operating results of the current period.

Save as disclosed above, the Company and the Group had no other significant contingent liabilities as at 30 June 2008.

14. 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 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2008 RMB'000	31 December 2007 RMB'000
Within one year	**248,532**	183,471
In the second to fifth years, inclusive	**194,487**	207,199
After five years	**1,565**	2,394
	444,584	393,064

15. COMMITMENTS

In addition to the operating lease commitments detailed in note 14 above, the Group had the following commitments at the balance sheet date:

Capital commitments

	30 June 2008 RMB'000	31 December 2007 RMB'000
Land and buildings:		
Contracted, but not provided for	**409,431**	582,263
Investment in associates:		
Contracted, but not provided for	**253,951**	255,234

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16. RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material related party transactions during the period:

Name of Company	Nature of transaction	Notes	Six months ended 30 June 2008 RMB'000	Six months ended 30 June 2007 RMB'000
The ultimate holding company				
	Purchase of raw materials	(a)	**229,015**	207,958
	Sale of finished goods	(b)	**126**	—
	Rental expense	(d)	**14,082**	5,434
Shareholders of the ultimate holding company				
	Purchase of raw materials	(a)	**68,268**	61,579
	Sale of finished goods	(b)	**2,812**	3,674
Jointly-controlled entities				
	Purchase of raw materials	(a)	**—**	1,503
	Sale of finished goods	(b)	**20,956**	116
Associates				
	Purchase of raw materials	(a)	**71,769**	75,602
	Sale of finished goods	(b)	**9,646**	2,744
Entities controlled by key management personnel of the Group				
	Purchase of raw materials	(a)	**80,241**	128,666
	Sale of finished goods	(b)	**14,638**	2,543
	Rental expense	(e)	**15,958**	5,973
Shareholder of a subsidiary				
	Corporate guarantee	(c)	**953,091**	314,810
Fellow subsidiaries				
	Purchase of raw materials	(a)	**129,900**	62,216
	Sale of finished goods	(b)	**78**	330

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16. RELATED PARTY TRANSACTIONS (Continued)

(I) Transactions with related parties (Continued)

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.

(d) The rental expense was charged at rates ranging from RMB40 to RMB42.5 per square metre.

(e) The rental expense was charged at rates ranging from RMB115 per square metre.

(II) Compensation of key management personnel of the Group

	Six months ended 30 June 2008 RMB'000	Six months ended 30 June 2007 RMB'000
Short-term employee benefits	**3,173**	3,348

17. COMPARATIVE FIGURES

Certain comparative figures have been adjusted and restated to conform with disclosures for the current reporting period.

18. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 August 2008.

DOCUMENTS AVAILABLE FOR INSPECTION

1. Text of the 2008 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 2008 prepared in accordance with the PRC ASBEs 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

Hou Weigui
Chairman

21 August 2008