中兴通讯股份有限公司
ZTE CORPORATION

半年度報告 Interim Report 2010

股份代號 stock code: 000063.SZ 763.HK

重要提示：

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

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

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

本公司第五屆董事會第八次會議審議通過本半年度報告，董事長侯為貴先生因工作原因未能出席，委托副董事長謝偉良先生行使表決權；副董事長雷凡培先生因工作原因未能出席，委托董事史立榮先生行使表決權；獨立董事曲曉輝女士因工作原因未能出席，委托獨立董事魏煒先生行使表決權。

本集團截至2010年6月30日止編製的半年度財務報表未經審計。

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

Important

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

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

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

The interim report has been considered and approved at the Eighth meeting of the Fifth Session of the Board of Directors of the Company. Mr. Hou Weigui, Chairman of the Board, was unable to attend the Meeting due to work related reasons, and had authorised Mr. Xie Weiliang, Vice Chairman of the Board, to vote on his behalf. Mr. Lei Fanpei, Vice Chairman of the Board, was unable to attend the Meeting due to work related reasons, and had authorised Mr. Shi Lirong, Director, to vote on his behalf. Ms. Qu Xiaohui, Independent Director, was unable to attend the Meeting due to work related reasons, and had authorised Mr. Wei Wei, Independent Director, to vote on her behalf.

The interim financial statements of the Group for the six months ended 30 June 2010 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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Definition

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

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

Definition

"Zhongxing WXT"	Shenzhen Zhongxing WXT Equipment Company Limited
"Zhongxingxin"	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited
"Zhongxing Xindi"	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited
"Zhongxing Xinyu"	Shenzhen Zhongxing Xinyu FPC Company Limited
"Zhongxing Xinzhou"	Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited
"ZTE Kangxun"	Shenzhen ZTE Kangxun Telecom Company Limited
"Zhongxing Software"	Shenzhen Zhongxing Software Company Limited
"ZTE HK"	ZTE (H.K.) Limited
"Changfei"	Shenzhen Changfei Investment Company Limited
"Hongde"	Shenzhen Hongde Battery Company Limited
"Kangquan"	Shenzhen Kangquan Electromechanical Company Limited
"Ruide"	Shenzhen Ruide Electronic Industrial Company Limited
"Fudekang"	Shenzhen Fudekang Electronics Company Limited
"Nanchang Xingfei"	Nanchang Xingfei Technology Company Limited

Glossary

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

3G	Third-generation mobile networks supporting 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 key standards bodies such as 3GPP and 3GPP2.
4G	Fourth generation mobile networks supporting download speeds of over 100Mbps and uplink speed of over 50Mbps and being able to fulfill requirements for wireless services of virtually all users.
SDR	Software-defined radio, the conversion of a system from one mode to another through software amendments or the implementation of a multi-mode operation through the use of a very few hardware.
IN	A business network built on the core network and the Internet, providing ultimate users with voice and data value-added services, such as pre-payments, virtual private networks, call centres, SMS/MMS/WAP/payments, Internet of Things.
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.
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.
FTTX	FTTX Abbreviation of “Fiber-to-the-X”, a collective name given to various methods for fiber access. FTTX commonly includes: FTTN (Fiber-to-the-Node), FTTC (Fiber-to-the-Curb), FTTB (Fiber-to-the-Building), FTTH (Fiber-to-the-Home).
Core Network	A mobile network comprises a wireless access network and a core network, the latter of which provides services such as call control, billing and mobility.
Access network	Located in the public telecommunications network as an interface between the local switchboard and users, the primary function of which is to facilitate user access to the core network. The access network is formed by a series of equipment between the service node interface (SNI) and the user-network interface (UNI).
Carrying network	Carrying level network that provides the basic carriage function for the services. It directs each service information flow from its source to the destination according to various service requirements and modulates network resources on the basis of the attributes of these requirements to ensure the functionality and performance of these services, providing QoS assurance and network safety assurance for communications of different types and natures.
UMTS	A reference to WCDMA standards generally used in Europe. 3G technologies have been collectively referred to as UMTS (Universal Mobile Telecommunications System) by European Telecommunications Standards Institute (ETSI) since the early 1990s.

Glossary

PTN	Packet based Transport Network. In contrast to the traditional TDM mode, PTN transmits data flow in packets. PTN is a novel integrated equipment utilizing IP packet-based internal audit and incorporating traditional TDM user habits.
xPON	Optical access that applies WDM technology with optical fiber as transmission medium, enabling high access bandwidth and end-to-end POS (passive optical splitting) transmission. xPON has a significant edge over other optical access technology and comprises EPON and GPON.
IPTN	IP telecommunications networks, built on the basis of IP technologies and capable of fulfilling the requirements of telecommunications operations with the provision of network solutions for a variety of services. IPTN is a conversion from traditional IP networks aimed at resolving the QoS, security and administration issues of IP networks.

Corporate Information

(I) BASIC INFORMATION

1	Legal name (in Chinese)	中興通訊股份有限公司
	Chinese abbreviation	中興通訊
	Legal name (in English)	ZTE Corporation
	English abbreviation	ZTE
2	Legal representative	Hou Weigui
3	Secretary to the Board of Directors/Company Secretary	Feng Jianxiong
	Securities affairs representatives	Xu Yulong, Li Fei
	Correspondence Address	6/F A Wing, ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China
	Telephone	+86 755 26770282
	Facsimile	+86 755 26770286
	E-mail	fengjianxiong@zte.com.cn
4	Registered and office address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China
	Postal code	518057
	Principal place of business in Hong Kong	8/F Gloucester Tower, The Landmark, 15 Queen's Road Central, Central, Hong Kong
	Website	http://www.zte.com.cn
	E-mail	fengjianxiong@zte.com.cn
5	Newspapers designated for information disclosure by the Company	
	Domestic	China Securities Journal, Securities Times, Shanghai Securities News
	Authorised websites on which this report is made available	http://www.cninfo.com.cn http://www.hkexnews.hk
	Place where this report is available for inspection	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China
6	Listing information	**A shares** Shenzhen Stock Exchange Abbreviated name of stock: 中興通訊 Stock code: 000063 **Bonds** Shenzhen Stock Exchange Abbreviated name of bond: 中興債1 Bond code: 115003 **H shares** Hong Kong Stock Exchange Abbreviated name of stock: ZTE Stock code: 763

Corporate Information

(II) MAJOR FINANCIAL DATA AND INDICATORS

1. Major Financial Data and Indicators prepared in accordance with PRC ASBEs

Unit: RMB in thousands

Items	End of the reporting period (30 June 2010)	End of last year (31 December 2009)	Change as at the end of the reporting period compared with the end of last year
Total assets	**74,056,990**	68,342,322	8.36%
Shareholders' equity Note 1	**20,883,723**	16,825,267	24.12%
Share capital Note 2	**2,866,732**	1,831,336	56.54%
Net assets per share (RMB/share) Notes 1 and 3	**7.45**	6.37	16.95%

Items	The reporting period (Six months ended 30 June 2010)	Same period of last year (Six months ended 30 June 2009)	Change compared with the same period of last year
Operating revenue	**30,725,420**	27,707,646	10.89%
Operating profit	**673,886**	633,655	6.35%
Total profit	**1,392,859**	1,211,196	15.00%
Net profit Note 1	**877,489**	783,367	12.02%
Net profit after extraordinary gains or losses Note 1	**743,528**	754,760	-1.49%
Basic earnings per share (RMB/share) Notes 1 and 4	**0.32**	0.30	6.67%
Diluted earnings per share (RMB/share) Notes 1 and 5	**0.31**	0.29	6.90%
Fully diluted return on net assets (%)	**4.20%**	5.31%	Decrease by 1.11 percentage points
Weighted average return on net assets (%)	**4.41%**	5.40%	Decrease by 0.99 percentage points
Net cashflow from operating activities	**-3,684,312**	-1,175,203	-213.50%
Net cashflow from operating activities per share (RMB/share) Note 6	**-1.31**	-0.45	-191.11%

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

Note 2: The share capital of the Company for the reporting period was increased from 1,831,336,215 to 2,866,731,684 shares as a result of the Company's placing of new H shares, the exercise of "中興 ZXC1" Warrants and the implementation of the 2009 profit distribution and capitalisation of capital reserves plan. For details please refer to the section headed "Changes in Share Capital and Shareholdings of Substantial Shareholders" in this report.

Note 3: Net assets per share attributable to the shareholders of the listed company at the end of the reporting period was calculated on the basis of the total share capital as at the end of the period less 64,928,143 restricted shares remaining in lock-up under share incentive scheme. Net assets per share attributable to the shareholders of the listed company at the end of the previous year was calculated on the basis of the total share capital as at the end of the previous year less 69,737,523 restricted shares remaining in lock-up under share incentive scheme then and restated to reflect the implementation of the Company's 2009 profit distribution and capitalisation of capital reserves plan.

Note 4: Basic earnings per share for the same period of 2009 has been restated as a result of the implementation of the 2009 profit distribution and capitalisation of capital reserves plan during the reporting period. Basic earnings per share for the reporting period was calculated on the basis of the weighted average ordinary share capital representing the total share capital as at the end of the period less 64,928,143 restricted shares remaining in lock-up under share incentive scheme.

Note 5: As certain Subject Share quotas under the Phase I Share Incentive Scheme of the Company remaining in lock-up gave rise to potentially dilutive ordinary shares of 64,928,143 shares and 46,753,747 shares for the reporting period and the same period of 2009, respectively, diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factors, and diluted earnings per share for the same period of 2009 has been restated to reflect the implementation of the Company's 2009 profit distribution and capitalisation of capital reserves plan.

Note 6: Net cash flow from operating activities per share was calculated on the basis of the total share capital as at the end of the period less 64,928,143 restricted shares remaining in lock-up under share incentive scheme. Net cash flow from operating activities per share for the same period of 2009 has been restated to reflect the implementation of the Company's 2009 profit distribution and capitalisation of capital reserves plan.

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

Unit: RMB in thousands

Extraordinary items	Amount
Government subsidies recognised in profit and loss for the reporting period Note	95,031
Other non-operating income	9,482
Gains from changes in fair values	77,926
Less: Profit/loss arising from the disposal of non-current assets	10,222
Other non-operating expenses	14,616
Effect of income tax	23,640
Total	133,961

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

2. Major financial indicators prepared in accordance with HKFRSs

Items	**Six months ended 30 June 2010**	Six months ended 30 June 2009
Basic earnings per share Note 1 (RMB/share)	**0.32**	0.30
Fully diluted return on net assets (%)	**4.20%**	5.31%
Weighted average return on net assets (%)	**4.41%**	5.40%

Item	**As at 30 June 2010**	As at 31 December 2009
Net assets per share Note 2 (RMB/share)	**7.45**	6.37

Note 1 : Basic earnings per share for the same period of 2009 has been restated as a result of the implementation of the 2009 profit distribution and capitalisation of capital reserves plan during the reporting period. Basic earnings per share for the reporting period was calculated on the basis of the weighted average ordinary share capital representing the total share capital as at the end of the period less 64,928,143 restricted shares remaining in lock-up under share incentive scheme.

Note 2 : Net assets per share attributable to the shareholders of the listed company at the end of the reporting period was calculated on the basis of the total share capital as at the end of the period less 64,928,143 restricted shares remaining in lock-up under share incentive scheme. Net assets per share attributable to the shareholders of the listed company at the end of the previous year was calculated on the basis of the total share capital as at the end of the previous year less 69,737,523 restricted shares remaining in lock-up under share incentive scheme then and restated to reflect the implementation of the Company's 2009 profit distribution and capitalisation of capital reserves plan.

3. The amounts of net profit and shareholders' equity of the Group for and as at the end of the reporting period calculated in accordance with PRC ASBEs are fully consistent with those calculated under HKFRSs.

Changes in Share Capital and Shareholdings of Substantial Shareholders

(1) CHANGES IN SHARE CAPITAL OF THE COMPANY DURING THE REPORTING PERIOD

Unit: Shares

	Opening balance (31 December 2009)		Increase/decrease (+/-) resulting from changes in the reporting period					Closing balance (30 June 2010)	
	Number	Percentage (%)	Issue of new shares Notes 1 and 2	Bonus issue	Transfer from capital reserve Note 3	Others Note 4	Sub-total	Number	Percentage (%)
I. Shares subject to lock-up	**72,459,458**	**3.96**	**–**	**–**	**23,170,254**	**-26,118,949**	**-2,948,695**	**69,510,763**	**2.42**
1. State-owned shares	–	–	–	–	–	–	–	–	–
2. State-owned corporate shares	–	–	–	–	–	–	–	–	–
3. Other domestic shares	66,899,197	3.65	–	–	20,873,387	-25,152,423	-4,279,036	62,620,161	2.18
Comprising: Domestic non-stated-owned corporate shares	–	–	–	–	–	–	–	–	
Domestic natural person shares	66,899,197	3.65	–	–	20,873,387	-25,152,423	-4,279,036	62,620,161	2.18
4. Foreign shares	–	–	–	–	–	–	–	–	–
Comprising: Foreign corporate shares	–	–	–	–	–	–	–	–	–
Foreign natural person shares	–	–	–	–	–	–	–	–	–
5. Senior management shares	5,560,261	0.31	–	–	2,296,867	-966,526	1,330,341	6,890,602	0.24
II. Shares not subject to lock-up	**1,758,876,757**	**96.04**	**79,818,241**	**–**	**932,406,974**	**26,118,949**	**1,038,344,164**	**2,797,220,921**	**97.58**
1. RMB ordinary shares	1,467,401,865	80.12	21,523,441	–	757,522,128	26,118,949	805,164,518	2,272,566,383	79.28
2. Domestic-listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas-listed foreign shares (H Shares)	291,474,892	15.92	58,294,800	–	174,884,846	–	233,179,646	524,654,538	18.30
4. Others	–	–	–	–	–	–	–	–	–
III. Total number of shares	**1,831,336,215**	**100.00**	**79,818,241**	**–**	**955,577,228**	**–**	**1,035,395,469**	**2,866,731,684**	**100.00**

Note 1 : On 21 January 2010, the Company completed the placing of its new H shares under the general mandate, pursuant to which 58,294,800 H shares were issued and listed.

Note 2: The "中興 ZXC1" Warrants were exercised during the period from 1 February 2010 to 12 February 2010. After the close of the exercise, the share capital of the Company was increased by 21,523,441 RMB ordinary shares.

Note 3: On 24 June 2010, the Company implemented the plan of capitalisation of the capital reserve (creation of 5 shares for every 10 shares based on a total share capital of 1,911,154,456 shares after the completion of the new H share placing on 21 January 2010 and the exercise of the "中興 ZXC1" Warrants on 12 February 2010). Please refer to the relevant announcements of the Company dated 17 June 2010 for details.

Note 4 : (1) A total of 26,452,094 shares were unlocked in the Second Unlocking of Subject Shares under the First Award of the Phase I Share Incentive Scheme of the Company completed on 4 June 2010 . For details, please refer to the ''Announcement on the Completion of the Second Unlocking of Subject Shares under the First Award of the Phase I Share Incentive Scheme of ZTE Corporation'' published by the Company on 3 June 2010. (2) In accordance with relevant domestic regulations, shares held by departed or newly assigned Directors, Supervisors or senior management shall be under lock-up.

Schedule I: Shareholdings of shareholders subject to lock-up and lock-up conditions (Unit: shares)

No.	Name of shareholders subject to lock-up	Number of shares subject to lock-up as at 31 December 2009	Number of shares released from lock-up during the reporting period	Increase in the number of shares subject to lock-up during the reporting period Note 3	Number of shares subject to lock-up at the end of the reporting period	Lock-up conditions	Date of unlocking
1	Hou Weigui	494,779	–	247,390	742,169	Restricted senior management shares	Note 1
2	Chen Jie	320,742	45,500	137,621	412,863	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
3	Yin Yimin	263,680	–	131,840	395,520	Restricted senior management shares	Note 1
4	Ni Qin	309,117	45,500	131,808	395,425	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
5	Xu Huijun	342,225	81,900	130,163	390,488	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
6	Zhao Xianming	342,225	81,900	130,162	390,487	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
7	Zeng Xuezhong	302,250	68,250	117,000	351,000	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
8	Wu Zengqi	292,500	68,250	112,125	336,375	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
9	Pang Shengqing	287,918	68,250	109,834	329,502	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
10	Fan Qingfeng	292,500	73,125	109,687	329,062	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
11	Others	69,211,522	25,596,338	21,822,688	65,437,872	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
	Total	72,459,458	26,129,013	23,180,318	69,510,763		

Note 1: In accordance with relevant domestic regulations, up to 25% of the shares held may be disposed of by the Directors, Supervisors and senior management through the stock exchange each year.

Note 2: Unlocked in accordance with the Phase I Share Incentive Scheme (Revised Version dated 5 February 2007) of ZTE Corporation.

Note 3: The increase in the number of restricted shares was attributable to the implementation of the 2009 profit distribution and capitalisation of capital reserves plan during the reporting period and the lock-up of shares held by departed or newly assigned Directors, Supervisors or senior management in accordance with relevant domestic regulations.

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, shareholdings of top ten shareholders and top ten holders that are not subject to lock-up

Total number of shareholders 79,534 shareholders (of which 79,178 were holders of A shares and 356 were holders of H shares)

Shareholdings of top ten shareholders

	Name of shareholders	Nature of shareholders	Total number of shares held (shares)	Percentage of shareholdings	Number of shares held subject to lock-up (shares)	Number of shares pledged or frozen
1.	Zhongxingxin	State-owned corporate	930,321,620	32.45%	0	Nil
2.	HKSCC Nominees Limited	Foreign shareholders	523,670,916	18.27%	0	Unknown
3.	China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	Others	57,919,472	2.02%	0	Unknown
4.	ICBC — Guangfa Jufeng Stock Fund	Others	41,409,795	1.44%	0	Unknown
5.	Industrial Bank Co., Ltd. — Industrial Global View Securities Investment Fund	Others	31,320,982	1.09%	0	Unknown
6.	Hunan Nantian (Group) Co., Ltd	State-owned corporate	31,208,841	1.09%	0	Unknown
7.	ICBC — E Fund Selected Value Stock Securities Investment Fund	Others	26,386,635	0.92%	0	Unknown
8.	BOC — E Fund SZSE 100 ETF	Others	25,685,448	0.90%	0	Unknown
9.	BOC — E Fund Strategic Growth II Mixed Securities Investment Fund	Others	24,347,147	0.85%	0	Unknown
10.	BOC — E Fund Strategic Growth Securities Investment Fund	Others	22,071,590	0.77%	0	Unknown

Shareholdings of top ten holders of shares not subject to lock-up

	Name of shareholders	Number of shares held not subject to lock-up (shares)	Class of shares
1.	Zhongxingxin	930,321,620	A shares
2.	HKSCC Nominees Limited	523,670,916	H shares
3.	China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	57,919,472	A shares
4.	ICBC — Guangfa Jufeng Stock Fund	41,409,795	A shares
5.	Industrial Bank Co., Ltd. — Industrial Global View Securities Investment Fund	31,320,982	A shares
6.	Hunan Nantian (Group) Co., Ltd	31,208,841	A shares
7.	ICBC — E Fund Selected Value Stock Securities Investment Fund	26,386,635	A shares
8.	BOC — E Fund SZSE 100 ETF	25,685,448	A shares
9.	BOC — E Fund Strategic Growth II Mixed Securities Investment Fund	24,347,147	A shares
10.	BOC — E Fund Strategic Growth Securities Investment Fund	22,071,590	A shares

Descriptions of any connected party relationships or concerted party relationships among the above shareholders

1. There were no connected party relationships or concerted party relationships between Zhongxingxin and the rest of the top ten shareholders and the rest of the top ten shareholders not subject to lock-up.

2. The 7th, 8th, 9th and 10th ranking shareholders among the top 10 shareholders were managed by the same fund manager — E Fund Management Company Limited.

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

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

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

Name of shareholder	Increase/decrease (+/-) of number of Shares held during the reporting period (shares)	Number of shares held at the end of the Reporting period (shares)	Class of shares held	Number of Shares subject to lock-up held at the end of the reporting period (shares)	Number of shares not subject to lock-up held at the end of the reporting period (shares)	Number of shares pledged or frozen (shares)
Zhongxingxin	310,107,207	930,321,620	A shares	0	930,321,620	Nil

Note: The change in the shareholdings of Zhongxingxin during the reporting period was attributable to the implementation of the 2009 profit distribution and capitalisation of capital reserves plan.

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.

Changes in Share Capital and Shareholdings of Substantial Shareholders

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

As at 30 June 2010, the following shareholders were interested in 5% or more in any class of the issued share capital of the Company, as shown in the share register maintained by the Company in accordance with Section 336 of the Securities and Futures Ordinance:

Name	Number of shareholding	Approximate shareholding as a percentage (%) of: Total share capital	Class of shares
Zhongxingxin	930,321,620 A Shares (L)	32.45	39.72
Zhongxing WXT	930,321,620 A Shares (L)	32.45	39.72
Xi'an Microelectronics	930,321,620 A Shares (L)	32.45	39.72
China Aerospace Times Electronics Corporation	930,321,620 A Shares (L)	32.45	39.72
China Aerospace Science and Technology Corporation	930,321,620 A Shares (L)	32.45	39.72
Morgan Stanley	43,867,066 H Shares (L)	1.53	8.36
Morgan Stanley	37,843,485 H Shares (S)	1.32	7.21
FIL Limited	40,631,885 H Shares (L)	1.42	7.74
Aranda Investments (Mauritius) Pte Ltd	11,141,800 H Shares (L)	1.16 Note	6.96 Note
Deutsche Bank Aktiengesellschaft	31,469,346 H Shares (L)	1.10	6.00
Deutsche Bank Aktiengesellschaft	17,169,721 H Shares (S)	0.60	3.27
Massachusetts Financial Services Company ("MFS")	8,428,100 H Shares (L)	0.88 Note	5.26 Note
Sun Life Financial Inc.	8,428,100 H Shares (L)	0.88 Note	5.26 Note

(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 (959,521,650 shares) and total number o H shares (160,151,040 shares) before the capitalisation of capital reserves on 10 July 2008.

Save as disclosed above, as at 30 June 2010, so far as the Directors, Supervisors and senior management of the Company are aware, no person had an interest or short position in the shares and underlying shares of the Company that was required to be recorded in the register maintained pursuant to Section 336 of the Securities and Futures Ordinance.

4. **Purchase, sale and redemption of shares**

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

Directors, Supervisors and Senior Management

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

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

No.	Name	Title	Number of A shares held at the beginning of the reporting period (shares)	Increase in the number of shares held during the period	Decrease in the number of shares held during the period	Number of A shares held at the end of the reporting period (shares)	Including: number of Restricted shares under share incentive scheme	Reason for the change
Directors of the Company								
1	Hou Weigui	Chairman	659,706	329,854	–	989,560	–	Note 1
2	Lei Fanpei	Vice Chairman	–	–	–	–	–	
3	Xie Weiliang	Vice Chairman	18,200	9,100	–	27,300	12,285	Note 1
4	Zhang Junchao	Director	18,200	9,100	–	27,300	12,285	Note 1
5	Wang Zhanchen	Director	–	–	–	–	–	
6	Dong Lianbo	Director	18,200	9,100	–	27,300	12,285	Note 1
7	Shi Lirong	Director and President	200,283	100,142	–	300,425	–	Note 1
8	Yin Yimin	Director	351,574	175,787	–	527,361	–	Note 1
9	He Shiyou	Director and Executive Vice President	191,633	95,817	–	287,450	–	Note 1
10	Wei Wei	Independent Director	–	–	–	–	–	
11	Qu Xiaohui	Independent Director	–	–	–	–	–	
12	Chen Naiwei	Independent Director	–	–	–	–	–	
13	Tan Zhenhui	Independent Director	–	–	–	–	–	
14	Timothy Alexander Steinert	Independent Director	–	–	–	–	–	
Supervisors of the Company								
15	Zhang Taifeng	Chairman of Supervisory Committee	221,458	110,729	–	332,187	–	Note 1
16	He Xuemei	Supervisor	–	–	–	–	–	
17	Zhou Huidong	Supervisor	26,754	13,377	–	40,131	18,058	Note 1
18	Wang Yan	Supervisor	–	–	–	–	–	
19	Xu Weiyan	Supervisor	5,110	2,556	–	7,666	–	Note 1
Senior management of the Company								
20	Wei Zaisheng	Executive Vice President and Chief Financial Officer	215,233	107,617	–	322,850	–	Note 1
21	Xie Daxiong	Executive Vice President	289,607	144,803	–	434,410	122,850	Note 1
22	Tian Wenguo	Executive Vice President	206,877	103,439	–	310,316	122,850	Note 1
23	Qiu Weizhao	Executive Vice President	182,000	91,000	–	273,000	122,850	Note 1
24	Fang Qingfeng	Executive Vice President	292,500	121,250	50,000	363,750	184,275	Note 1, Note 2
25	Chen Jie	Senior Vice President	366,990	183,495	–	550,485	122,850	Note 1
26	Zhao Xianming	Senior Vice President	347,100	131,050	85,000	393,150	221,130	Note 1, Note 2
27	Pang Shengqing	Senior Vice President	292,891	109,834	73,223	329,502	184,275	Note 1, Note 2
28	Zeng Xuezhong	Senior Vice President	312,000	156,000	–	468,000	184,275	Note 1
29	Xu Huijun	Senior Vice President	347,100	136,041	75,020	408,121	221,130	Note 1, Note 2
30	Ye Weimin	Senior Vice President	256,524	128,262	–	384,786	122,850	Note 1
31	Ni Qin	Senior Vice President	351,489	175,744	–	527,233	122,850	Note 1
32	Wu Zengqi	Senior Vice President	299,000	112,125	74,750	336,375	184,275	Note 1, Note 2
33	Zhu Jinyun	Senior Vice President	253,708	101,484	50,742	304,450	171,252	Note 1, Note 2
34	Zhang Renjun	Senior Vice President	–	–	–	–	–	
35	Feng Jianxiong	Secretary to the Board of Directors	195,000	87,500	20,000	262,500	122,850	Note 1, Note 2
	Total	–	5,919,137	2,745,206	428,735	8,235,608	2,265,475	

Directors, Supervisors and Senior Management

Note 1: The 2009 profit distribution and capitalisation of capital reserves plan (creation of 5 shares for every 10 shares and RMB3 for every 10 shares (including tax) in cash) were implemented on 24 June 2010. The shareholdings of Directors, supervisors and senior management have been adjusted accordingly.

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

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

Note 4: The first unlocking of shares granted to the Directors and senior management of the Company under the Share Incentive Scheme was completed on 26 February 2010. For details, please refer to the Overseas Regulatory Announcement of the Company dated 26 February 2010. The second unlocking was completed on 4 June 2010. For details, please refer to the ''Announcement on the Completion of the Second Unlocking of Subject Shares under the First Award of the Phase I Share Incentive Scheme of ZTE Corporation'' published by the Company on 3 June 2010.

(II) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Changes in the Directors of the Company during the reporting period were as follows:

At the first extraordinary general meeting of the Company held on 30 March 2010, Mr. Hou Weigui, Mr. Lei Fanpei, Mr. Xie Weiliang, Mr. Wang Zhanchen, Mr. Zhang Junchao, Mr. Dong Lianbo, Mr. Shi Lirong, Mr. Yin Yimin, Mr. He Shiyou, Mr. Li Jin, Ms. Qu Xiaohui, Mr. Wei Wei, Mr. Chen Naiwei and Mr. Tan Zhenhui were elected members of the Fifth Session of the Board of Directors of the Company, which shall carry a term from 30 March 2010 to 29 March 2013.

Mr. Li Jin, Independent Director of the Company, Mr. Li Ji left office after the expiry of the maximum term of 6 years for his appointment on 29 June 2010.

At the 2009 Annual General Meeting of the Company convened on 3 June 2010, Mr. Timothy Alexander Steinert was elected as an Independent Director of the Fifth Session of the Board of Directors of the Company for a term commencing on 30 June 2010 and ending on the date on which the Fifth Session of the Board of Directors of the Company concludes (namely 29 March 2013).

2. Changes in the Supervisors of the Company during the reporting period were as follows:

At the first extraordinary general meeting of the Company held on 30 March 2010, Ms. Wang Yan and Ms. Xu Weiyan were elected Shareholders' Representative Supervisors of the Fifth Session of the Supervisory Committee of the Company. Mr. Zhang Taifeng, Ms. He Xuemei and Mr. Zhao Xinyu were elected as Staff Representative Supervisors of the Fifth Session of the Supervisory Committee of the Company through democratic elections by the staff representatives of the Company on 17 March 2010. The Fifth Session of the Supervisory Committee shall carry a term from 30 March 2010 to 29 March 2013.

The Supervisory Committee of the Company announced on 18 June 2010 that Mr. Zhao Xinyu, Staff Representative Supervisor of the Company had resigned from the position of Staff Representative Supervisor as a result of his job change.

On 21 June 2010, Mr. Zhou Huidong was elected Staff Representative Supervisor of the Fifth Session of the Supervisory Board of the Company at the staff assembly of the Company for a term that expires on the conclusion of the Fifth Session of the Supervisory Board of the Company. On the same date, the resignation of Mr. Zhao Xinyu became effective.

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

Pursuant to the "Resolution on the Appointment of Senior Management of the Company" considered and passed at the first meeting of the Fifth Session of the Board of Directors of the Company held on 30 March 2010, it was approved that: Mr. Shi Lirong be appointed President of ZTE Corporation;

Mr. He Shiyou, Mr. Wei Zaisheng, Mr. Xie Daxiong, Mr. Tian Wenguo, Mr. Qiu Weizhou and Mr. Fan Qingfeng each be appointed an Executive Vice President of ZTE Corporation; Mr. Wei Zaisheng be re-appointed as Chief Financial Officer of ZTE Corporation; Ms. Chen Jie, Mr. Zhao Xianming, Mr. Pang Shengqing, Mr. Zeng Xuezhong, Mr. Xu Huijun, Mr. Ye Weimin, Mr. Ni Qin, Mr. Wu Zengqi, Mr. Zhu Jinyun and Mr. Zhang Renjun each be appointed a Senior Vice President of ZTE Corporation; and Mr. Feng Jianxiong be appointed Secretary to the Board of Directors of ZTE Corporation.

(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 2010 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 2010, 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 2010, 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 2010.

FINANCIAL RESULTS

Please refer to page 218 and page 340 of this report for the results of the Group for the six months ended 30 June 2010 prepared in accordance with PRC ASBEs and HKFRSs.

(I) REVIEW OF BUSINESS IN THE FIRST HALF OF 2010

1. Overview of the PRC telecommunications industry in the first half of 2010

During the first six months of 2010, the domestic telecommunications industry was on the track of positive development underpinned by the large-scale rollout of optical broadband network construction, although there was a slowdown in investments in 3G mobile networks. Carriers expedited their research on the application of high-end technologies, while making focused efforts to grow their user bases. According to figures released by the Ministry of Industry and Information Technology, the domestic telecommunications industry reported revenue of RMB434.55 billion for the first half of 2010, representing a year-on-year growth of 5.9%.

2. Overview of the global telecommunications industry in the first half of 2010

During the first six months of 2010, emerging countries in the Asia Pacific, Africa and Latin America continued to account for dominant shares of the world's new investments in telecommunications infrastructure. During the period under review, developments in the global telecommunications industry became increasingly complicated and unpredictable because of trade policy changes that occurred in certain countries or regions. Total investments of the telecommunications industry were also affected as a result. With the broad application of 3G technologies and the development of the mobile Internet, data operations became the fastest-growing business, while revenue growth continued to slow down for mobile voice services, although the latter remained the primary contributor of revenue from principal operations for carriers. Fixed-line voice services continued to decline, although the fixed-line broadband business sustained growth with multimedia Internet applications providing the driving force.

3. Operating results of the Group for the first half of 2010

Global economic recovery was sluggish during the first half of 2010, while the telecommunications industry remained competitive. Nevertheless, the Group delivered sound results in wireline switch and access products, optical communications products and terminal products on the back of its inherent strengths despite various difficulties. Operating revenue of the Group for the first half of 2010 amounted to RMB30.725 billion, representing a year-on-year growth of 10.89%. Net profit grew 12.02% to RMB877 million. Basic earnings per share amounted to RMB0.32.

(1) By market

The domestic market

During the reporting period, the Group reported operating revenue of RMB15.470 billion from the domestic market, representing a year-on-year growth of 3.47%. Benefitting from the buildup of 3G users in China and demand for broadband upgrades, the Group worked actively to support carriers' projects in 3G network construction and participated extensively in the replacement, coverage extension and improvements of relevant networks, in a bid to consolidate its market share in China's 3G network construction amid the slowdown of 3G network investment. Meanwhile, the Group leveraged its strengths in customisation and cost advantage and vigorously participated in carriers' tenders for products such as transmission networks, wireline access and terminals, etc. Encouraging results were reported, ensuring stable growth in the Group's domestic business revenue.

The international market

During the reporting period, the Group reported operating revenue of RMB15.255 billion from the international market, representing a year-on-year growth of 19.58% and accounting for 49.65% of its total operating revenue. While revenue from Asia declined owing the incident relating to safety inspection of communications equipment in India, the Group nevertheless reported considerable year-on-year growth in international revenue as it continued to make large-scale breakthroughs with global mainstream carriers through cooperations with global mainstream carriers such as France Telecom, Telkom SA, Telefonica of Spain, America Movil, etc on products of different modes.

(2) By product

Analysed by products, the Group registered year-on-year revenue growth of 1.08% for carriers' networks, 39.71% for terminal products and 17.99% for telecommunication software systems, services and other products during the reporting period.

Carriers' networks

During the first half of 2010 under review:

In terms of wireless products, the Group optimised its position in the high-end markets of Europe and the United States by consistently meeting customers' needs in cost reduction, low carbon emission and environmental friendliness, being well assisted by its abundant experience in ongoing cooperation with multi-national carriers and its offering of advanced SDR product solutions. Meanwhile, we were also committed to key customers in the Asia Pacific, Africa and Latin America, which provided important foundations for the international market to account for an increasing share of our revenue in wireless products.

In wireline products, the Group maintained its advantageous position in access network and transmission network products. In connection with access networks, our wireline access products, represented by xPON, continued to lead the market while large-scale, network-wide commercial application of the FTTx solutions was realised in major cities after certain hurdles relating to popular spots had been resolved. In connection with transmission products, our PTN, wave division and data communications products, etc made headway into important regions and started cooperation in meaningful scale with certain mainstream carriers. By now, our customers are not only well informed of the quality and service of these products, but have also been given fresh insight into the Group's integrated strengths in project work and services.

Terminals

During the first half of 2010, the Group sustained rapid growth in the sales of its terminal products, reporting a 39.71% year-on-year growth in sales revenue.

Driven by the buildup of 3G users in China, domestic sales of the Group's terminal products (comprising 3G handsets in various modes) increased significantly during the reporting period to lay a solid foundation for sales revenue growth of its terminal products. Internationally, the Group's terminal products, particularly the 3G handsets and data card products, have made comprehensive breakthroughs in high-end markets around the world, at a considerably strong growth rate.

Telecommunication software systems, services and other products

Revenue from telecommunication software systems, services and other products grew by 17.99%, which was mainly driven by the revenue growth for video, network terminals and monitor products.

Report of the Board of Directors

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

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

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

Unit: RMB in thousands:

Item	Six months ended 30 June 2010	Six months ended 30 June 2009	Percentage of increase/ decrease
Operating revenue	**30,725,420**	27,707,646	10.89%
Operating profit	**673,886**	633,655	6.35%
Net profit	**877,489**	783,367	12.02%

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

2. Breakdown of principal operations by industry and product segments

By industry or product	Operating revenue (RMB in thousands)	Operating Costs (RMB in thousands)	Gross profit margin	Year-on-year Increase/ decrease in operating revenue	Year-on-year Increase/ decrease in operating costs	Year-on-year Increase/ decrease in gross profit margin
I. By industry						
Manufacturing of communication equipment	30,725,420	20,446,914	33.45%	10.89%	8.62%	1.39%
II. By product						
Carriers' networks	19,000,326	11,772,902	38.04%	1.08%	-5.20%	4.11%
Terminal	7,790,253	6,020,790	22.71%	39.71%	47.87%	-4.27%
Telecommunication software systems, services and other products	3,934,841	2,653,222	32.57%	17.99%	13.69%	2.55%
Total	30,725,420	20,446,914	33.45%	10.89%	8.62%	1.39%
Of which:						
connected transactions*	8,359	4,760	43.06%	-86.28%	-86.78%	2.15%
Pricing principle for connected transactions	The prices for connected transactions between the Company and connected parties were basically consistent with market prices.					
Statement on the necessity and the ongoing nature of the connected transactions	Sales by the Company to the connected parties mainly related to distribution of the Company's products by the parties as agent. Such transactions will continue in future.					

Of which: connected transactions involving sales of products or provision of labour services to the controlling shareholder and its subsidiaries by the Company during the reporting period amounted to RMB521,000.

* The above references to connected transactions relate to connected transactions as defined under the securities regulatory provisions of the Listing Rules of Shenzhen Stock Exchange.

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	15,469,878	3.47%
Asia (excluding the PRC)	5,250,734	-18.60%
Africa	4,463,961	78.75%
Other regions	5,540,847	45.45%
Total	30,725,420	10.89%

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

Unit: RMB in thousands

By product	Operating revenue	Operating costs	Gross profit margin
Carriers' networks	19,000,326	11,772,902	38.04%
Terminal	7,790,253	6,020,790	22.71%
Telecommunication software systems, services and other products	3,934,841	2,653,222	32.57%

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 2010	As a percentage of total profit for the six months ended 30 June 2009	Change (percentage points)
Operating profit	48.38%	52.32%	-3.94
Expenses for the period	652.39%	620.76%	31.63
Investment gains	1.72%	0.19%	1.53
Non-operating income and expenses, net	51.62%	47.68%	3.94

Note: The significant increase in expenses as a percentage of total profit for the reporting period was mainly attributable to increased investment in marketing and research and development by the Company and the increase in finance costs.

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

Report of the Board of Directors

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

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

8. **Difficulties encountered by the Group in its operations during the first half of 2010**

   The global economy continued to show weakness during the reporting period as the effect of the financial crisis lingered on. There were signs of trade protectionism in certain countries, posing challenges to the Group's efforts in international market development. Meanwhile, the continued broadening of our overseas market means that we were dealing with increasing customers from the higher end of the market. We will have to upgrade our integrated after-sales capabilities in order to meet growing demand in this regard.

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 Co., Ltd. on 5 February 2008.

   As at 31 December 2009, the amount invested by the Company in projects utilising issue proceeds had met the agreed investment amount set out in issue prospectuses (RMB6,550.39 million) and the portion in excess had been funded by the Company's internal resources, the details of which have been set out in the Report of the Board of Directors in the 2009 Annual Report of the Company. Such portion would be replaced if the warrants are exercised upon maturity. The listing of the "ZXC1" Warrants which constituted part of the Bonds cum Warrants ended at 15:00 on 12 February 2010 and a total of 23,348,590 "ZXC1" Warrants had been exercised as at the close of trading on 12 February 2010 for the subscription of a total of 21,523,441 A shares, generating total issue proceeds of RMB912,464,759. In order to enhance the efficiency of fund application and reduce finance costs, the Company replaced internal funds that had previously been invested in the issue proceed projects with proceeds from the exercise of the warrants. For details, please refer to the Overseas Regulatory Announcement of the Company dated 24 March 2010.

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

10. **Other matters**

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

(2) The Group did not disclose any business plans for 2010 in the 2009 Annual Report.

(3) The consolidated gearing ratio of the Group for the first half of 2010 was 70.34%, decreasing by 3.4 percentage points as compared to the end of last year as a result of the simultaneous increase in total assets and shareholders' equity following the placing of new H shares and the exercise of A share warrants. The interest-bearing debt ratio of the Group was 18.87%, which was 0.03 percentage points higher as compared to the end of last year.

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

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

Operating revenue

The following table sets out the revenue and the corresponding percentage of the total revenue attributable to the major product segments of the Group for the periods indicated:

Unit: RMB in millions

Product segment	For the six months ended 30 June 2010		For the six months ended 30 June 2009	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
Carriers' networks	**19,000.3**	**61.8%**	18,796.8	67.8%
Terminal	**7,790.3**	**25.4%**	5,575.9	20.1%
Telecommunication software systems, services and other products	**3,934.8**	**12.8%**	3,334.9	12.1%
Total	**30,725.4**	**100.0%**	27,707.6	100.0%

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

Unit: RMB in millions

Region	For the six months ended 30 June 2010		For the six months ended 30 June 2009	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
The PRC	**15,469.9**	**50.4%**	14,950.4	54.0%
Asia (excluding the PRC)	**5,250.7**	**17.1%**	6,450.3	23.3%
Africa	**4,464.0**	**14.5%**	2,497.4	9.0%
Other regions	**5,540.8**	**18.0%**	3,809.5	13.7%
Total	**30,725.4**	**100.0%**	27,707.6	100.0%

Report of the Board of Directors

The Group reported RMB30,725.4 million in operating revenue for the first half of 2010, representing a 10.9% growth compared to the same period last year. Operating revenue from domestic sales continued to grow, increasing by 3.5% to RMB15,469.9 million. Operating revenue from international sales increased by 19.6% to RMB15,255.5 million. Analysed by product segment, year-on-year revenue growth was reported in carrier's networks, terminals and telecommunication software systems, services and other products in varying degrees.

The mild growth in operating revenue from the Group's carriers' networks segment reflected the increase in revenue from international carriers' networks partially offset by the decline in revenue from domestic carriers' networks. The increase in revenue from international carriers' networks mainly reflected growth in revenue from wireless communication systems in Africa and optical communication and data communication system products in Asia, while the decline on the domestic front reflected mainly lower revenue from wireless communication systems.

The increase in operating revenue from the Group's terminal product segment was driven mainly by sales growth for 3G handsets in the domestic market, CDMA handsets in the American market, as well as 3G handsets and data cards in the European market.

The increase in operating revenue from the Group's telecommunication software systems, services and other products was mainly driven by growth in the sales of video, network terminals and monitor products.

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 2010		For the six months ended 30 June 2009	
	Cost of sales	As a percentage of segment revenue	Cost of sales	As a percentage of segment revenue
Carriers' networks	12,094.5	63.7%	12,746.0	67.8%
Terminal	6,039.9	77.5%	4,108.8	73.7%
Telecommunication software systems, services and other products	2,740.1	69.6%	2,410.4	72.3%
Total	20,874.5	67.9%	19,265.2	69.5%

Unit: RMB in millions

Product segment	For the six months ended 30 June 2010		For the six months ended 30 June 2009	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Carriers' networks	6,905.8	36.3%	6,050.8	32.2%
Terminal	1,750.4	22.5%	1,467.1	26.3%
Telecommunication software systems, services and other products	1,194.7	30.4%	924.5	27.7%
Total	9,850.9	32.1%	8,442.4	30.5%

Cost of sales of the Group for the first half of 2010 increased 8.4% as compared to same period last year to RMB20,874.5 million. The Group's overall gross profit margin of 32.1% was 1.6 percentage points higher than the same period last year, mainly as a result of higher gross profit margin of carrier network products.

Cost of sales for the Group's carriers' networks amounted to RMB12,094.5 million, 5.1% lower as compared to the same period last year. The gross profit margin for carriers' networks rose by 4.1 percentage points to 36.3% versus 32.2% for the same period last year, reflecting mainly improved gross profit margin for optical communication systems and wireless communication systems.

Cost of sales for the Group's terminal products amounted to RMB6,039.9 million, increasing by 47.0% compared to the same period last year. Gross profit margin for the Group's terminal segment declined to 22.5%, versus 26.3% for the same period last year, which was attributable mainly to lower gross profit for GSM handsets, CDMA handsets and data card products in varying degrees.

Cost of sales for the Group's telecommunication software systems, services and other products amounted to RMB2,740.1 million, increasing by 13.7% compared to the same period last year. The gross profit margin for telecommunication software systems, services and other products rose to 30.4%, compared to 27.7% for the same period last year, primarily reflecting higher gross profit margins for video and network terminals.

Other income and gains

Other income and gains of the Group the first half of 2010 amounted to RMB860.8 million, representing a 8.5% growth compared to RMB793.4 million for the first half of 2009. The increase reflected primarily fair-value gains from the Company's investments in fixed-income derivatives during the first half of 2010 and an increase in government subsidies.

Research and development costs

The Group's research and development costs for the first half of 2010 increased by 22.6% to RMB3,195.3 million from RMB2,606.4 million for the first half of 2009, and grew 1 percentage point from 9.4% to 10.4% as a percentage of operating revenue. The increase in research and development costs was attributable mainly to increased investments in the research and development of core networks, IN10 and IPTN, etc.

Selling and distribution costs

The Group's selling and distribution costs the first half of 2010 increased by 25.9% to RMB4,066.0 million from RMB3,230.2 million for the first half of 2009, and increased by 1.5 percentage points from 11.7% to 13.2% as a percentage of operating revenue. The increase was attributable mainly to increased investments in the Company's overseas market development.

Administrative expenses

Administrative expenses of the Group for the first half of 2010 decreased by 20.1% to RMB1,142.6 million, as compared to RMB1,430.6 million for the first half of 2009, and decreased by 1.5 percentage points from 5.2% to 3.7% as a percentage of operating revenue, mainly as a result of strengthened cost control by the Company.

Other expenses

Other expenses of the Group for the first half of 2010 increased by 44.6% to RMB543.3 million, as compared to RMB375.7 million for the first half of 2009. The increase in other expenses is attributable to the fact that exchange gains recorded for the first half of 2009 were accounted for as "Other income and gains," while exchange losses for the first half of 2010 were presented under "Other expenses."

Report of the Board of Directors

Profit from operating activities

The Group's profit from operating activities for the first half of 2010 increased by 10.8% to RMB1,764.6 million, as compared to RMB1,592.9 million for first half of 2009. The operating profit margin was 5.7%, basically unchanged from the same period last year.

Finance costs

Finance costs of the Group for the first half of 2010 amounted to RMB393.9 million, comparing flatly with RMB392.2 million for the first half of 2009.

Tax

The Group's income tax expense for the first half of 2010 was RMB399.6 million, which was 16.7% higher as compared to RMB342.5 million for the first half of 2009, reflecting the 15.0% growth in profit before taxation for the first half of 2010 versus the first half of 2009 and the slight increase in the effective tax to 28.7% for the first half of 2010 from 28.3% for the first half of 2009.

Profit attributable to minority interests

The Group's minority interests for the first half of 2010 amounted to RMB115.8 million, which was 35.6% higher as compared to RMB85.4 million for the first half of 2009. Minority interests increased from 9.8% for the first half of 2009 to 11.7% for the first half of 2010 as a percentage of profit before minority interests, reflecting mainly profit growth at subsidiaries with a higher level of minority interests.

Other comprehensive income

Other comprehensive income of the Group for the first half of 2010 decreased by 191.2% to RMB-135.1 million, compared to RMB-46.4 million for the first half of 2009. The decrease in other comprehensive income was mainly attributable to losses arising from the translation of financial statements denominated in foreign currencies.

Debt-equity ratio and the basis of calculation

The debt-equity ratio of the Group for the first half of 2010 was 7.5 percentage points lower at 38.9% compared to 46.4% for the first half of 2009, which mainly reflected the growth in shareholders' equity following the placing of new H shares and the exercise of A share warrants.

Cash flow data

Unit: RMB in millions

	For the six months ended 30 June 2010	For the six months ended 30 June 2009
Net cash outflow from operating activities	**(4,910.4)**	(1,792.3)
Net cash outflow from investing activities	**(1,117.5)**	(522.3)
Net cash inflow from financing activities	**4,253.6**	3,097.5
Net increase/(decrease) in cash and cash equivalents	**(1,774.3)**	782.9
Cash and cash equivalents at the end of the period	**12,285.5**	12,076.8

Operating activities

The Group had a net cash outflow from operating activities of RMB4,910.4 million for the first half of 2010 compared to RMB1,792.3 million for the first half of 2009, reflecting year-on-year increase of cash outflow for purchases and the provision of services by RMB7,414.7 million mainly as a result of expanded sales, increase of cash outflow for payments made to employees by RMB1,601.6 million, increase of tax payment by RMB1,644.2 million and increase of other cash paid in connection with operating activities by RMB1,720.4 million, coupled with increase of cash inflow for sales and the provision of services by approximately RMB9,270.2 million and the increase of cash inflow from tax rebates by approximately RMB290.9 million.

Investing activities

The net cash outflow from the Group's investment activities for the first half of 2010 was RMB1,117.5 million compared to a net cash outflow of RMB522.3 million for the first half of 2009, reflecting mainly year-on-year increase of cash paid for the purchase of fixed assets, intangible assets and other long-term assets by RMB1,042.2 million.

Financing activities

The Group's net cash inflow from financing activities for the first half of 2010 was RMB4,253.6 million, compared to RMB3,097.5 million for the first half of 2009, reflecting mainly cash proceeds of RMB3,196.8 million received from the placing of new H shares and the exercise of A share warrants.

Disclosure required under the Hong Kong Listing Rules

In accordance with paragraph 40 of Appendix 16 to the Hong Kong Stock Exchange Listing Rules, the Company confirms that, save as disclosed herein, there has been no material change in the current information regarding the Company from the information disclosed in the 2009 Annual Report of the Company in relation to those matters set out in paragraph 32 of Appendix 16.

(IV) BUSINESS OUTLOOK AND RISK EXPOSURE FOR THE SECOND HALF OF 2010

1 Business outlook for the second half of 2010

Looking to the second half of the year, carriers will continue to set sight on the development of mobile broadband, which will necessitate ongoing broadband construction to provide requisite support. Carriers will step up with their experiment and deployment of high-end technologies or even 4G technology, in connection with which novel technologies, such as Internet of Things and Cloud Computing, etc, are expected to be more extensively adopted by carriers. In the meantime, the gradual implementation of the integration of the 3 networks in the domestic market will give rise to the development of a variety of technologies and services in the relevant sectors, which would present additional development opportunities for the Group.

The Group will continue to enhance its positive partnerships with domestic carriers and strived to consolidate and boost its current market position through participation in major network construction projects in the second half of the year. Given intense competition in the international market, the Group will capitalise on opportunities presented by network upgrade or the popularisation of broadband connection by swiftly responding to customers' needs, enhancing strategic cooperation and bolstering its inherent strengths.

Report of the Board of Directors

2 Business risk exposure

(1) Foreign exchange risks

The foreign exchange risk of the Group arose mainly from exchange differences in the conversion of sales and purchases settled in currencies other than RMB (the functional currency of the Group) into RMB. With a strong emphasis on the research of exchange risk management policies, models and strategies, the Group has adopted the natural hedging approach to manage its foreign exchange risks and sought to match its assets and liabilities in foreign currencies through the choice of different currencies for various businesses and spot exchange trading.

(2) Interest rate risks

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

(3) Credit risks

The Group will encounter differing customer groups in the course of its global business development, and its business will be affected by the varied credit profiles of these customers.

(4) Country risks

Under the new global economic and financial order, the Group will continue to be exposed to political risks, sovereignty risks and transfer risks associated with countries where its projects are operated, while there are also signs of trade protectionism in the global market. As such, a very high level of operational and risk control capabilities is required of the Group.

Material Matters

(I) CORPORATE GOVERNANCE

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

The Company improves its corporate governance regimes and structures, regulates corporate operations and optimises internal control structures on an ongoing basis in accordance with the requirements of the Company Law, the Securities Law, Corporate Governance Standards for Listed Companies and relevant laws and regulations of the CSRC. During the reporting period, the general meeting, Board of Directors and Supervisory Committee were operated in compliance with the law, and the corporate governance of the Company was in compliance with provisions set out in the regulatory documents on corporate governance of listed companies issued by the CSRC.

(1) Amendments to relevant regulatory regimes

In accordance with the relevant requirements and principles laid down in the Circular on Proper Publication of 2009 Annual Reports for Listed Companies and Related Work (CSRC Circular [2009] No. 34) published by CSRC in December 2009 and the Notice on Requiring Listed Companies to Formulate the System of Accountability for Significant Errors in Information Disclosure of Annual Reports issued by the Shenzhen CSRC in February 2010, the Company has formulated the "External Information User Management System" and "System of Accountability for Significant Errors in Information Disclosure of Annual Reports", which were considered and passed at the Second Meeting of the Fifth Session of the Board of Directors held on 8 April 2010. In order the regulate the Company's derivative investment activities and control the risk involved in derivative investments, the "System for Risk Control and Information Disclosure relating to Investments in Derivatives" was formulated in accordance with laws, regulations and regulatory documents including the Securities Law, Administrative Measures on Information Disclosure of Listed Companies, Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange, as well as the Articles of Association of ZTE Corporation and the Administrative Rules on Information Disclosure of ZTE Corporation, and was considered and passed at the Third Meeting of the Fifth Session of the Board of Directors of the Company held on 27 April 2010.

(2) Conduct of specialised initiatives for the regulation of the Company's fundamental financial and accounting functions

The Company actively rolled out specialised initiatives for the regulation of the Company's fundamental financial and accounting functions ("Specialised Initiatives") in accordance with the "Notice on the Comprehensive and In-depth Commencement of Specialised Initiatives for the Regulation of Fundamental Financial and Accounting Functions by Listed Companies in Shenzhen under the Jurisdiction of Shenzhen CSRC" issued by Shenzhen CSRC, and a work group for Specialised Initiatives with the President as team leader and the Chief Financial Officer as deputy was formed and plans for Specialised Initiatives were drawn up to facilitate the conduct of Specialised Initiatives by dedicated staff. The work group on Specialised Initiatives conducted in-depth self-inspection on the Company's fundamental financial and accounting functions with an objective and pragmatic approach according to the work plans and in accordance with the Accounting Laws of the People's Republic of China, Basic Standards for Internal Control of Enterprises and Standards for Fundamental Accounting Functions. The results of the self-inspection indicated that the Company was in compliance with relevant financial and accounting laws and regulations in terms of the establishment of financial management organisation and structure, the development of financial management and accounting audit systems, fundamental accounting audit functions and the development and management of financial information system. In response to issues identified in the self-inspection which required further rectifications or improvements, relevant measures, responsible officers and timetables were planned and self-inspection reports were prepared.

Material Matters

In accordance with relevant requirements, the Company's Specialised Initiatives and self inspection reports were considered and passed by the Board of Directors and submitted to the Shenzhen CSRC.

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 2010.

(II) IMPLEMENTATION OF THE 2009 PROFIT DISTRIBUTION PROPOSAL

During the reporting period, the Company implemented the plan of profit distribution and capitalisation of the capital reserve for 2009 (RMB3 for every 10 shares (including tax) in cash based on a total share capital of 1,867,869,027 shares, representing 1,911,154,456 shares (after the completion of the new H share placing on 21 January 2010 and the exercise of the "Zhongxing ZXC1" Warrants on 12 February 2010) less 43,285,429 restricted shares under the share incentive scheme (which were entitled to share capitalisation of the capital reserve but not cash dividends pursuant to relevant provisions of the Phase I Share Incentive Scheme of the Company (Revised Version dated 5 February 2007)), and the creation of 5 shares for every 10 shares based on a total share capital of 1,911,154,456 shares. The plan of profit distribution and capitalisation of the capital reserve for 2009 was considered and passed at the 2009 Annual General Meeting held on 3 June 2010 and implementation had been completed. The record date 23 June 2010 and the ex-rights/ex-dividend date was 24 June 2010, for A shares. In respect of H shares, the record date was 3 May 2010, and the dividend payment date was 24 June 2010. The date on which new A shares not subject to lock-up were listed and the dealing of bonus H shares commenced was 24 June 2010. For details please refer to the relevant announcements of the Company dated 17 June 2010 and 22 June 2010, respectively.

(III) PROFIT DISTRIBUTION PROPOSAL AND PROPOSAL FOR SHARE CAPITAL INCREASE BY WAY OF TRANSFER FROM RESERVES FOR THE SIX MONTHS ENDED 30 JUNE 2010

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 2010.

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

1. Overview of the bonds cum warrants of the Company

The Company issued 40,000,000 bonds with warrants amounting to RMB4 billion in total on 30 January 2008.

The bonds have a nominal value of RMB100 each and a total issue amount of RMB4 billion. The coupon interest rate of the bonds cum warrants is 0.8% per annum, accruable from the issue date (30 January 2008).

Two interest payments were made in respect of the bond issue on 30 January 2009 and 30 January 2010, respectively. Thereafter interest payments will be made on 30 January of each year. The maturity of the bonds is 30 January 2013.

The ultimate subscriber of each ZTE Bond cum Warrant were issued 1.63 Warrants and a total of 65.20 million warrants were listed on the Shenzhen Stock Exchange on 22 February 2008. The warrants, coded "Zhongxing ZXC1", was valid from 22 February 2008 to 21 February 2010. The last trading day for "Zhongxing ZXC1" was 5 February 2010 (Friday) and trading has been terminated with effect from 8 February 2010 (Monday). Holders of "Zhongxing ZXC1" were entitled to exercise their rights during the last 10 trading days of the valid period, namely on trading days during the period from 1 February 2010 to 12 February 2010, both dates inclusive (the actual exercise period was from 1 to 12 February because 13 to 19 February 2010 coincided with the Chinese New Year holidays, while 20 to 21 February were double holidays). The adjusted exercise of the warrant on an ex-right and ex-dividend basis was RMB42.394 per share and the adjusted exercise ratio was 1:0.922, namely the holder of 1 "Zhongxing CX1" Warrant was entitled to purchase 0.922 ZTE A share at a price of RMB42.394 per share during the exercise period.

As at the close of trading on 12 February 2010, a total of 23,348,590 "Zhongxing ZXC1" Warrants had been exercised, accounting for 35.81% of the total number of warrants prior to the current exercise. A total of 41,851,410 "Zhongxing ZXC1" Warrants had not been exercised and had lapsed. Following the exercise of the "Zhongxing ZXC1" Warrants, the Company's total issued share capital increased from 1,889,631,015 shares prior to the exercise to 1,911,154,456 shares after the exercise. For details please refer to the "Announcement on the Results of the Exercise of the "Zhongxing ZXC1" Warrants and Changes in Shareholding" published by the Company on 23 February 2010.

2. There was no conversion, redemption or cancellation of the bonds from the Bonds cum Warrants of the Company.

Material Matters

3. **Top Ten Bond Holders and Their Holdings**

As at 30 June 2010, the top ten bond holders of the Company were as follows:

No.	Name of bond holder	Number of bonds held	Bond holding ratio (%)
1	New China Life Insurance Company Limited	7,991,671	19.98
2	Petroleum Finance Company Limited	4,129,207	10.32
3	China Life Insurance Company Limited	3,678,666	9.20
4	Taikang Life Insurance Co., Ltd	3,655,350	9.14
5	Sino Life Insurance Co., Ltd. — Traditional — General Insurance Products	2,422,890	6.06
6	China National Petroleum Corporation — Corporate Annuity Plan — Industrial and Commercial Bank of China	2,403,238	6.01
7	Ping An Life Insurance Company of China, Ltd.	1,737,880	4.34
8	PICC Health Insurance Company Limited — Traditional — General Insurance Products	1,400,000	3.50
9	China Pacific Insurance (Group) Co., Ltd.	1,286,327	3.22
10	Agricultural Bank of China — Changsheng Tongde Thematic Growth Stock Fund	881,995	2.20

4. **There was no significant change in the profitability, asset conditions and credit standing of China Development Bank, the guarantor for the Bonds cum Warrants of the Company.**

5. **Status of liabilities and credit rating changes of the Company and cash arrangements for debt repayments in future years.**

During the reporting period, the Group's gearing ratio was 70.34% according to the financial statements prepared under PRC ASBEs and there was no change in the Group's credit rating. The Bonds cum Warrants of the Group have a 5-year life from the date of issue. Interest is paid annually with the interest payment date falling on the anniversary of issue of the Bonds cum Warrants. The Group will pay the interest for the current year within 5 business days following (and inclusive of) the interest payment date. All bonds will be redeemed by the Group within 5 trading days following the maturity of the current bonds in issue, at face value plus interest accruable for the final year.

6. **Other information**

On 17 March 2010, the Company entered into the "Agreement for Tripartite Supervision of Issue Proceeds" with China Development Bank, Shenzhen Branch and Guotai Junan Securities Co., Ltd. in respect of the proceeds from the issue of Bonds cum Warrants. The "Resolution of the Company on the Replacement of Internal Funds Previously Invested in Issue Proceed Investment Projects with Proceeds from the Issue of Bonds cum Warrants" was passed at the Thirty-fourth Meeting of the Fourth Session of the Board of Directors of the Company held on 23 March 2010. On 22 March 2010, the Company received the "Notice of Replacement of Sponsor's Representative" from Guotai Junan Securities Co., Ltd., the Company's sponsor in respect of the issue of Bonds cum Warrants. For details of the matters involved, please refer to the relevant announcements of the Company dated 17 March and 24 March.

For details of the use of proceeds from the Bonds cum Warrants of the Company, please refer to the section headed "9 (1) Use of proceeds" in "(II) Management Discussion and Analysis under PRC ASBEs" in "Report of the Board of Directors" of this annual report.

(V) PROGRESS OF THE PHASE I SHARE INCENTIVE SCHEME OF THE COMPANY DURING THE REPORTING PERIOD

At the Fourth Meeting of the Fifth Session of the Board of Directors of the Company held on 20 May 2010, the "Resolution on the Second Unlocking of Subject Shares under the First Award of the Phase I Share Incentive Scheme" was considered and passed, which confirmed that the conditions for the Second Unlocking of the Subject Shares under the First Award of the Company had been fulfilled and that 3,239 Scheme Participants under the First Award had satisfied conditions for the Second Unlocking of Subject Shares under the Phase I Share Incentive Scheme, and proposed to unlock a total of 26,452,094 shares. For details please refer to the "Announcement of Resolutions of the Fourth Meeting of the Fifth Session of the Board of Directors".

On 3 June 2010, the Company received a "Reply Slip in Acknowledgment of the Application for Unlocking of Shares under Share Incentive Schemes" (《股權激勵股份解除鎖定申請受理回執》) issued by China Securities Depository & Clearing Corporation Limited, Shenzhen Branch. The second unlocking of the Subject Shares in the First Award under the Phase I Share Incentive Scheme was completed, with a total of 26,452,094 Subject Shares being unlocked, accounting for 1.38% of the total share capital of the Company. The date of listing and circulation of Subject Shares subsequent to the release of restrictions was 4 June 2010.

Details of the effect of the Phase I Share Incentive Scheme of the Company on the financial conditions and operating results of the Company for the reporting period and future periods are set out in Note VII to the financial statements prepared under the PRC ASBEs.

(VI) H SHARE PLACING OF THE COMPANY

Pursuant to the "Reply of Approval for the Issue of Additional Overseas-listed Foreign Shares by ZTE Corporation" issued to the Company by the China Securities Regulatory Commission, the Company was granted approval to issue no more than 58,294,978 H shares with a par value of RMB1 each, all of which would be ordinary shares. On 21 January 2010, the Company allotted and issued 58,294,800 new H shares at a placing price of HK$45.0 per share to placees who were, and whose ultimate beneficial owners were, independent third parties. Net proceeds raised from the placing amounted to approximately HK$2,596 million. For details please refer to the relevant announcements of the Company dated 14 January 2010 and 21 January 2010, respectively.

Material Matters

(VII) ADDITIONAL SHARE ACQUISITION PLAN PROPOSED BY SHAREHOLDERS INTERESTED IN MORE THAN 30% OF THE SHARES OF THE COMPANY

On 10 October 2008, Zhongxingxin, the controlling shareholder of the Company, acquired additional A shares in the Company through the trading system of Shenzhen Stock Exchange. As at 9 October 2009, the plan of Zhongxingxin to acquire additional shares was completed. Zhongxingxin has received the "Reply of Approval for the Waiver of the Obligation of Shenzhen Zhongxingxin Telecommunications Equipment Company Limited To Make A General Offer For the Shares in ZTE Corporation" (《關於核准豁免深圳市中興新通訊設備有限公司要約收購中興通訊股份有限公司股份義務的批覆》) (Zheng Jian Xu Ke [2010] No. 721) from the China Securities Regulatory Commission. For details please refer to the announcement of the Company dated 2 June 2010.

Zhongxingxin has been in compliance with its undertaking that it would not sell down its holdings of shares in the Company during the period of additional acquisition and the statutory period.

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

During the reporting period, the Group did not incur any material litigation or arbitration. There was no substantial progress during the reporting period for other litigation and arbitration proceedings that occurred in previous years. If any progress is being made in such matters, the Company will make announcements in a timely manner.

(IX) EQUITY INTERESTS IN OTHER LISTED COMPANIES

Unit: RMB in thousands

Stock code	Abbreviated name	Initial investment amount	Percentage of shareholdings in issuer	Carrying value at the end of the period	Gain/loss during the reporting period	Change in owner's equity during the reporting period	Accounting item	Source of shares
300077	Nationz Technologies	30,000	20%	525,544	21,124	443,292	Long-term equity investment	Initial investment

(X) DERIVATIVE INVESTMENTS

Risk analysis and control measures (including but not limited to market risks, liquidity risks, credit risks, operational risks and legal risks) in respect of derivative positions during the reporting period	Derivative investments conducted by the Company during the interim period were fixed-income derivatives: On the basis of the due USD payables of the Company, USD loans pledged by RMB equivalent deposits were acquired to complete foreign payments, whereby the exchange rate for purchasing foreign currency for loan repayment upon maturity was locked up through forward trading. The product did not effectively require the appropriation of available funds and was free of liquidity risks. The counterparty is a bank with sound credit rating and a long-standing business relationship with the Company and therefore the transaction was basically free from performance risks. The Company exercised stringent implementation of its risk management system by entering into contracts with clear and precise terms with the counterparty bank. The yield of the fixed-income derivative investments of the Company upon maturity was ascertained, while there was a certain measure of fair-value volatility risk which might arise as a result of changes in market valuations during the subsisting period. The Company has formulated the "System for Risk Control and Information Disclosure relating to Investments in Derivatives" that contains specific provisions for the risk control, review procedures and subsequent management of derivative investment, so that derivative investments will be effectively regulated and its risks duly controlled.
Market prices or fair-value change of invested derivatives during the reporting period, including the method adopted in the analysis of the fair values of the derivatives and the assumptions and parameters associated therewith	The change in the fair value of the derivatives during the reporting period was recognised. For the reporting period, gains from fair-value change amounted to RMB77,926,000. The calculation of the fair value was based on forward exchange rates quoted by the counterparty bank for a balance sheet date consistent with the maturity date of the product.
Whether accounting policy and accounting audit principles for derivatives for the reporting period were significantly different from the previous reporting period	There was no significant change in the Company's accounting policy and accounting audit principles for derivatives for the reporting period as compared to from the previous reporting period.
Specific opinion of Independent Directors, sponsors or financial advisers on the Company's derivative investment and risk control	**Independent Directors' Opinion:** The Independent Directors of the Company are of the view that: the Company conducted fixed-income derivative investments during the first half of 2010 based on due USD payables to offset exchange losses arising from volatility of RMB exchange rates with low-risk fixed income. The Company has formulated the "System for Risk Control and Information Disclosure relating to Investments in Derivatives" and will continue to improve its internal control of derivative investments.

Material Matters

POSITIONS IN DERIVATIVE INVESTMENTS AT THE END OF THE REPORTING PERIOD

Unit: RMB in thousands

Type of contract	Opening balance of contract	Closing balance of contract	Gain/loss during the reporting period	Contract amount as a percentage of the Company's net assets as at the end of the reporting period
Fixed-income derivatives	0	2,394,795	77,926	11.47%
Total	0	2,394,795	77,926	11.47%

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

(XII) SIGNIFICANT CONNECTED TRANSACTIONS UNDER APPLICABLE LAWS AND REGULATIONS OF THE PRC

1. The Group did not conduct any purchases from or sales of goods or provide labour services to connected parties with amounts exceeding 5% of the latest audited net asset value during the reporting period. Please refer to Note VI 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 Listing of Stocks on Shenzhen Stock Exchange) of the Group included the purchase of raw materials from, sales of products to and property leasing from connected parties by the Company and its subsidiaries. Such connected transactions were conducted after arm's length negotiation on the basis of normal commercial terms. The prices at which the Group made purchases from the connected parties were not higher than the prices at which the connected parties sell similar products to other users in similar quantities. The prices at which properties were leased to the Group by connected parties were not higher than market rates for the lease of similar properties in neighbouring areas. In addition, such connected transactions would not have any adverse impact on the Group's profit. The Group is not dependent on the connected party and the connected transactions do not affect the independence of the Group.

Details of the implementation of the Group's ongoing connected transactions during the year are set out in the following table (for information on the connected parties, their connected relationships with the Group, basic terms of the connected transactions agreements between the Group and the connected parties, estimated transaction amounts for 2010 under each agreement, impact of the connected transactions on the Group and review of the connected transactions by the Board of Directors or the general meeting of the Company, please refer to the "Announcement Regarding Ongoing Connected Transactions" and "Announcement Regarding Ongoing Connected Transactions — Lease Agreements" published by the Company on 19 April 2007, 23 October 2008, 23 April 2009, 27 October 2009 and 27 April 2010 respectively.

Classification	Member of the Group (party to connected transaction)	Connected person (counterparty to connected transaction)	Subject matter	Pricing basis	Transaction price	Amounts of connected transactions for January to June 2010 (Excluding VAT) (RMB10,000)	As a percentage of transactions in the same classification	Settlement	Whether different from estimated conditions
Purchase of raw materials	ZTE Kangxun Telecom Company Limited	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited and subsidiaries Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited, Shenzhen Zhongxing Xinyu FPC Company Limited, Zhongxing Xinzhou Complete Equipment Co., Ltd.	Various products such as cabinets, cases, distribution frames, soft circuit boards and shelters	Consistent with market prices (as per contract)	Cabinets and accessories: RMB1–RMB31,000 per unit; Cases and accessories: RMB1–RMB17,000 per unit depending on level of sophistication; Distribution frames and accessories: RMB2–RMB150,000 per unit depending on level of sophistication and functional features; Soft circuit boards: RMB0.3–RMB50 per unit depending on measurement, technical parameters and functional features; Shelter: RMB20,000–RMB100,000 per unit, depending on measurement, materials used and configuration.	25,476	1.50%	Banker's acceptance bill	No
		Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Various products such as communications antennas and radio frequency transmitter	Consistent with market prices (as per contract)	Communication antenna: RMB320–RMB2,500 per piece and radio frequency transmitter, RMB350–4,100 per unit, depending on technical parameters and functional features.	9,220	0.54%	Banker's acceptance bill	No
Property leasing	ZTE Corporation and subsidiary Chengdu Zhongxing Software Company Limited	Zhongxingxin (lessor)	Property located at No. 800 Tianfu Avenue Central, Chengdu, Sichuan with a leased area of 19,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB40/sq. m. (property management undertaken by ZTE and no management fees are payable)	259 Note 1	0.88%	Tele-transfer	No
	ZTE Corporation	Zhongxingxin (lessor)	Property located at Jinye Road, Electronics City, Xi'an, Shaanxi with a leased area of 44,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB42.5/sq. m. (inclusive of RMB2.5/sq m. as monthly management fees)	555 Note 2	1.89%	Tele-transfer	No
		Shenzhen Zhongxing Development Company Limited (lessor)	Property located at 19 Huayuan East Road, Haidian District, Beijing with a leased area of 31,000 sq. m.; with effect from 18 April 2010, a.m. was leased and the leased area was changed from 31,000 sq. m.; to 32,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB115/sq. m. (property management undertaken by ZTE and no management fees are payable)	1,898	6.46%	Tele-transfer	No
		Chongqing Zhongxing Development (lessor)	Property located at No. 3 Xing Guang Wu Road, North New District, Chongqing with an intended leased area of 20,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB30/sq. m. (property management undertaken by the Company and no management fees are payable)	244	0.83%	Tele-transfer	No

Note 1: The previous lease agreement for this property expired on 17 April 2010.

Note 2: At the Second Meeting of the Fifth Session of the Board of Directors of the Company held on 8 April 2010, the "Resolution of ZTE Corporation on the Asset Acquisition and Connected Transaction of Wholly-owned Subsidiary Xi'an Zhongxingxin Software Company Limited was considered and passed, whereby approval was given to Xi'an Zhongxingxin Software Company Limited, a wholly-owned subsidiary of the Company, to enter into a real estate transfer agreement with Zhongxingxin, the controlling shareholder of the Company, for the acquisition of the land use rights for a land block situated on the eastern side of Zhangba II Road in Gaoxin Area, Xi'an, Shaanxi and the houses and buildings in progress thereon for a consideration of approximately RMB152,900,400. The aforesaid real estate transfer contract is effective from the date on which it is approved by the Board of Directors of the Company. The property lease contract between the Company and Zhongxingxin, signed on 18 April 2007, will be automatically released on the date on which the new contract between Xi'an Zhongxingxin Software Company Limited and the Zhongxingxin became effective. For details please refer to the Announcement of Connected Transaction — Acquisition of Assets published by the Company and dated 8 April 2010.

Material Matters

3. Other than the "Resolution of ZTE Corporation on the Asset Acquisition and Connected Transaction of Wholly-owned Subsidiary Xi'an Zhongxingxin Software Company Limited considered and passed at the Second Meeting of the Fifth Session of the Board of Directors of the Company held on 8 April 2010 as described in Note 2, the Group 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.

(XIII) MATERIAL CONTRACTS OF THE GROUP AND THEIR PERFORMANCE

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

2. **Third-party guarantees:**

   (1) Third-party guarantees provided by the Group during the reporting period were as follows:

Third-party guarantees provided by the Company (excluding guarantees on behalf of subsidiaries)

Guaranteed party	Date and code number of announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties (Yes/No)
Djibouti Telecom S.A.	19 April 2007, 200720	RMB50 million	8 September 2006	RMB50 million	Joint liability	12 years	No	No
Benin Telecoms S.A. Note 1	23 July 2007, 200735	USD3 million	28 June 2007	USD3 million	Assurance	6.5 years	No	No
TRANSAM S.A. Note 2	28 April 2010, 201052	USD2.80 million	N/A	—	Joint liability	—	No	No
Total amount of third-party guarantee approved during the reporting period (A1)			USD2.80 million		Total amount of third-party guarantee actually incurred during the reporting period (A2)			0
Total amount of third-party guarantee approved as at the end of the reporting period (A3)			RMB89,387,200		Total amount of third-party guarantee actually incurred as at the end the reporting period (A4)			RMB70,372,700

Guarantees provided by the Company on behalf of subsidiaries

Guaranteed party	Date and code number of announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties (Yes/No)
ZTE (H.K.) Limited Note 1	23 July 2007, 200735	USD3 million	28 June 2007	USD3 million	Joint liability assurance	6.6 years	No	No
Congo-Chine Telecom S.A.R.L. Note 3	17 August 2007, 200738	USD105 million	8 November 2007	USD8,899,500	Guarantee by pledge	7.5 years	No	No
Closed Joint-Stock Company CJSC TK Mobile Note 4	12 May 2009, 200917	USD70.60 million	N/A	—	Guarantee by pledge	—	No	No
PT. ZTE Indonesia Note 4	6 June 2009, 200926	USD40 million	10 June 2009	USD40 million	Joint liability assurance	From maturity to the date on which performance of obligations of PT. ZTE Indonesia under "Framework Agreement for Infrastructure Network Construction" is completed	No	No
PT. ZTE Indonesia Note 4	6 June 2009, 200926	USD5 million	17 June 2009	USD5 million	Joint liability assurance	3.6 years or from maturity to the date on which performance of obligations of PT. ZTE Indonesia under "Framework Agreement for Infrastructure Network Construction" is completed, whichever later	No	No
ZTE Telecom India Private Limited Note 5	13 November 2009, 200945	USD30 million	30 December 2009	USD30 million	Joint liability assurance	From maturity to the date on which performance of obligations of ZTE India under "Framework Agreement for Infrastructure Network Construction" is completed	No	No
ZTE Telecom India Private Limited Note 5	13 November 2009, 200945	USD3 million	31 December 2009	INR6,848,100	Joint liability assurance		No	No

Total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1)	0	Total amount of guarantee on behalf of subsidiaries actually incurred during the reporting period (B2)	0
Total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3)	RMB1,742,544,900	Total amount of guarantee on behalf of subsidiaries actually incurred as at the end the reporting period (B4)	RMB591,125,500

Total amount guaranteed by the Company (sum of the two categories aforesaid)

Total amount of guarantee approved during the reporting period (A1+B1)	USD2.80 million	Total amount of guarantee actually incurred during the reporting period (A2+B2)	0
Total amount of guarantee approved as at the end of the reporting period Note 1 (A3+B3)	RMB1,811,559,400	Total amount of guarantee actually incurred as at the end the reporting period (Note 1) (A4+B4)	RMB641,125,500

Total guaranteed amount as a percentage of net assets of the Company (A4+B4)	3.07%
Including:	
Amounts of guarantees provided on behalf of shareholders, effective controllers and their connected parties (C)	0
Amount of debt guarantee provided directly or indirectly on behalf of parties with a gearing ratio exceeding 70% (D)	RMB591,125,500
Amount of total guarantee exceeding 50% of net assets (E)	0
Aggregate amount of the three guarantee amounts stated above (C+D+E)	RMB591,125,500
Statement on potential joint liability involved in outstanding guarantees	N/A

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Note 1: Guarantee provided by ZTE HK, 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 HK 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 USD3 million. As the gearing ratio of Benin Telecoms was in excess of 70%, the aforesaid guarantee was subject to consideration and approval by the Board of Directors and the general meeting of the Company in accordance with requirements of relevant laws and regulations. These two guarantees have been treated as the same guarantee in the calculation of the sum of the total amount of guarantee approved as at the end of the reporting period and the total balance of actually incurred as at the end the reporting period.

Note 2: The provision by the Company of a USD2.80 million guarantee by way of a performance guarantee letter on behalf of Chilean mobile carrier TRANSAM S.A was considered and approved at the Third Meeting of the Fifth Session of the Board of Directors, the details of which were disclosed in the "Announcement of External Guarantee" published on 27 April 2010. As of the date of this report, the guarantee has yet to be performed.

Note 3: The Company provided a guarantee in respect of a bank loan extended to subsidiary Congo-Chine Telecom S.A.R.L. by pledging its 51% equity interests in Congo-Chine Telecom S.A.R.L. As the gearing ratio of Congo-Chine exceeded 70%, the said guarantee was subject to consideration and approval by the Board of Directors and the general meeting of the Company in accordance with requirements of relevant laws and regulations.

Note 4: It was respectively approved at the Twenty-fourth and Twenty-fifth Meetings of the Fourth Session of the Board of Directors that the 51% equity interests in Closed Joint-Stock Company CJSC TK Mobile ("CJSC TK Mobile") held by the Company be applied as a security against a bank loan extended to CJSC TK Mobile; a performance guarantee of US$40 million be provided by the Company for PT. ZTE Indonesia ("ZTE Indonesia"), a wholly-owned subsidiary and application be made by the Company to the relevant bank for the issuance of a letter of performance guarantee with an amount of US$5 million. Since the gearing ratio of both CJSC TK Mobile and ZTE Indonesia was above 70%, the aforesaid guarantees were approved at the first extraordinary general meeting of 2009 in accordance with relevant laws and regulations. As at the date of this report, a US$5 million guarantee for ZTE Indonesia provided by way of standby letter of credit backed by the Company's banking credit facilities has been executed and the US$40 million performance guarantee agreement has been signed. The guarantee provided in respect of CJSC TK Mobile's bank loans by way of pledge of equity has yet to be performed as the relevant agreement has yet to be signed.

Note 5: It was approved at the Thirty-first Meeting of the Fourth Session of the Board of Directors that a performance guarantee of not more than US$30 million be provided by the Company for ZTE Telecom India Private Limited ("ZTE India"), a wholly-owned subsidiary million and application be made by the Company to the relevant bank for the issuance of an assurance letter in respect of contract performance to provide guarantee with an amount not exceeding US$3 million for ZTE India. Since the gearing ratio of ZTE India was above 70%, the aforesaid guarantees were approved at the second extraordinary general meeting of 2009 in accordance with relevant laws and regulations. As at the date of this report, an agreement in respect of the US$30 million performance guarantee provided by the Company has been signed and INR6,848,100 out of the US$3 million guarantee provided to ZTE India by way of bank assurance letter has been drawn upon.

Note 6: Guaranteed amounts denominated in Indian Rupee (INR) are translated at the exchange rate of 1 Indian Rupee to RMB0.14598 (being the book exchange rate of the Company on 30 June 2010). Guaranteed amounts denominated in US dollars are translated at the exchange rate of USD1 to RMB6.7909 (being the book exchange of the Company on 30 June 2010).

Note 7: 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 in order to be effective. 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 in order to be effective.

3. **A special statement and independent opinion on the Group's fund transfer between the Company and connected parties and Third-party guarantees of the Company has been furnished by Independent Directors of the Company, Ms. Qu Xiaohui, Mr. Wei Wei, Mr. Chen Naiwei, Mr. Tan Zhenhui and Mr. Timothy Alexander Steinert 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 2010 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 Third-party 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 Third-party guarantees made by Listed Companies" (Zheng Jian Fa [2003] No. 56) and are of the view that the Company has been in strict compliance with the relevant provisions under the Notice and are not aware of any breach of such notices.

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

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

No.	Contents of material contracts	Date of Disclosure	Newspaper for publication	Performance
1	Framework agreement and business contracts thereunder with Ethiopian Telecommunications Corporation	30 April 2007	China Securities Journal Securities Times Shanghai Securities News	Under normal progress
2	GSM Phase II project contract with Ethiopian Telecommunications Corporation	20 September 2007		Under normal progress
3	GSM/UMTS network turnkey project and maintenance service contract with Cell C (PTY) Ltd	27 January 2010		Under normal progress

Material Matters

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

Nature	Location	Date	Mode	Audience received	Contents of discussion	Materials furnished
Presentation of Company	Hong Kong	April 2010	2009 annual results presentation	Analysts and investors	2009 annual report	Published announcements and regular reports
	Shenzhen	April 2010	Teleconference	Analysts and investors	2010 first quarterly report	Published announcements and regular reports
External meetings	Hong Kong	March 2010	Credit Suisse Asia Investment Forum	Customers of Credit Suisse	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	May 2010	CLSA investors' meeting	Customers of CLSA	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	May 2010	Morgan Stanley investors' meeting	Customers of Morgan Stanley	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	June 2010	Goldman Sachs investors' meeting	Customers of Goldman Sachs	Day-to-day operations of the Company	Published announcements and regular reports
	Lijiang	June 2010	Sinolink Securities Interim Strategy Meeting	Customers of Sinolink	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	June 2010	Everbright Securities Interim Strategy Meeting	Customers of Everbright Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	June 2010	China Merchants Securities Interim Strategy Meeting	Customers of China Merchants Securities	Day-to-day operations of the Company	Published announcements and regular reports
				Overseas investors		
Company visits by analysts	Company	First half of 2010	Verbal	CLSA, BNP, Brunnei Investment Agency, Philadelphia International, Cavalry Asset Management, Baillie Gifford, Harris Associates, UOB, Piper Jaffry, Daiwa Securities, Yuanta Taiwan, Fidelity Fund, UBS Fundamental Investment Group, Sloane Robinson Investment Management, Kylin Management, Joho Asia, Front Point Management, Mitsubishi UFJ Securities, Mitsui Sumitomo, Mirae Asset Securities, Nikko Assets, GIC, Caledonia Investments, Investco, Asia Growth Investor AB, Deutsche Asset Management Americas, Nomura Securities, Nomura Asset Management, Macquarie Securities, Public Mutual Investment Management, Level Global Investors, Alliance Bernstein, Hermes Global Equities Advisors, Threadneedle Asset Management, Mitsubishi UFJ Investment Services, RCM, Deutsche Bank, Patrick Courval, Pelargos Capital B,V (Netherlands), ISI Group, Oaktree Capital.	Day-to-day operations of the Company	Published announcements and regular reports
				Domestic investors		
	Company	First half of 2010	Verbal	Peng Sheng Assets Management Company Limited, Hong Yuan Securities, China Life Asset Management Company Limited, China Securities, China International Fund Management, China Jianyin Investment Securities, New Value, Essence Securities, Ming Yuan Investment, United Securities, Harfor Fund, Harvest Fund, BoCom Schroders, Guotai Jun'an, Hua An Fund, Sinolink Securities, Everbright Securities, CITIC Securities, Guangfa Securities, E Fund, Ping An Securities, Southern Fund, Guosen Securities, China Merchants Securities, New China Asset Management, Hua Chuang Securities, Great Wall Fund, Greenwoods Asset Management, Dacheng Fund, UBS SDIC, Fortune SGAM Fund, Donghai Securities.	Day-to-day operations of the Company	Published announcements and regular reports

(XV) THERE WAS NO REPLACEMENT OR DISMISSAL OF ACCOUNTANT FIRMS BY THE COMPANY DURING THE REPORTING PERIOD.

(XVI) 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

(XVII) UNDERTAKING

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

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

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

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

Date	Newspaper	Page No.	Announcement
5 January 2010	China Securities Journal	C08	Indicative Announcement on Risks of Expiry of "Zhongxing ZXC1" Warrants
	Shanghai Securities News	B17	
	Securities Times	C8	
9 January 2010	China Securities Journal	C004	Announcement of the Receipt of Specialised Project Fundings
	Shanghai Securities News	24	
	Securities Times	B7	
12 January 2010	China Securities Journal	C08	Indicative Announcement on Risks of Expiry of "Zhongxing ZXC1" Warrants
	Shanghai Securities News	B22	
	Securities Times	D5	
14 January 2010	China Securities Journal	A12	Announcement of the Placing of New H Shares
	Shanghai Securities News	B19	
	Securities Times	D12	
19 January 2010	China Securities Journal	A12	Indicative Announcement on Risks of Expiry of "Zhongxing ZXC1" Warrants
	Shanghai Securities News	B25	
	Securities Times	B12	
22 January 2010	China Securities Journal	A24	Announcement of the Completion of the Placing of New H Shares
	Shanghai Securities News	B80	
	Securities Times	D8	
23 January 2010	China Securities Journal	C005	Announcement of Interest Payment of "中興債1"
	Shanghai Securities News	22	
	Securities Times	B12	
26 January 2010	China Securities Journal	D012	Indicative Announcement on Risks of Expiry of "Zhongxing ZXC1" Warrants
	Shanghai Securities News	B17	
	Securities Times	D12	

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Date	Newspaper	Page No.	Announcement
27 January 2010	China Securities Journal Shanghai Securities News Securities Times	A17 B16 D12	Announcement of Execution of Agreements
27 January 2010	China Securities Journal Shanghai Securities News Securities Times	A17 B16 D12	Indicative Announcement on the Exercise and Termination of Listing of the "Zhongxing ZXC1" Warrants
28 January 2010	China Securities Journal Shanghai Securities News Securities Times	D004 B16 B9	Indicative Announcement on Risks of Expiry of "Zhongxing ZXC1" Warrants
30 January 2010	China Securities Journal Shanghai Securities News Securities Times	C008 24 B12	Announcement in relation to the Estimated Performance Results
1 February 2010	China Securities Journal Shanghai Securities News Securities Times	C 20 A11	Announcement of the Commencement of the Exercise of the "Zhongxing ZXC1" Warrants
2 February 2010	China Securities Journal Shanghai Securities News Securities Times	C08 B32 D3	Announcement of the Exercise of "Zhongxing ZXC1" Warrants
2 February 2010	China Securities Journal Shanghai Securities News Securities Times	C08 B32 D3	Indicative Announcement on the Exercise and Termination of Listing of the "Zhongxing ZXC1" Warrants
3 February 2010	China Securities Journal Shanghai Securities News Securities Times	A17 B16 B12	Announcement of the Exercise of "Zhongxing ZXC1" Warrants
4 February 2010	China Securities Journal Shanghai Securities News Securities Times	B05 B16 D3	Announcement of the Exercise of "Zhongxing ZXC1" Warrants
5 February 2010	China Securities Journal Shanghai Securities News Securities Times	A20 B24 D5	Announcement of the Exercise of "Zhongxing ZXC1" Warrants
5 February 2010	China Securities Journal Shanghai Securities News Securities Times	A20 B24 D5	Announcement of the Change in the Abbreviated Name of "Zhongxing ZXC1" Warrants Before the Last Trading Date
6 February 2010	China Securities Journal Shanghai Securities News Securities Times	C004 35 B9	Announcement of Resolutions of the Thirty-second Meeting of the Fourth Session of the Board of Directors
6 February 2010	China Securities Journal Shanghai Securities News Securities Times	C004 35 B9	Notice of the First Extraordinary General Meeting of 2010
6 February 2010	China Securities Journal Shanghai Securities News Securities Times	C004 35 B9	Announcement of Resolutions of the Nineteenth Meeting of the Fourth Session of the Supervisory Committee
8 February 2010	China Securities Journal Shanghai Securities News Securities Times	A13 28 C4	Announcement of the Exercise of "Zhongxing ZXC1" Warrants
8 February 2010	China Securities Journal Shanghai Securities News Securities Times	A13 28 C4	Announcement of the Termination of Trading in "Zhongxing ZXC1" Warrants
9 February 2010	China Securities Journal Shanghai Securities News Securities Times	C08 B40 B12	Announcement of the Exercise of "Zhongxing ZXC1" Warrants

Date	Newspaper	Page No.	Announcement
10 February 2010	China Securities Journal Shanghai Securities News Securities Times	C08 B32 D29	Announcement of the Exercise of "Zhongxing ZXC1" Warrants
11 February 2010	China Securities Journal Shanghai Securities News Securities Times	B05 B16 D5	Announcement of the Exercise of "Zhongxing ZXC1" Warrants
12 February 2010	China Securities Journal Shanghai Securities News Securities Times	D004 32 A12	Indicative Announcement of Risk Reminder concerning the Last Exercise Date for "Zhongxing ZXC1" Warrants
12 February 2010	China Securities Journal Shanghai Securities News Securities Times	D004 32 A12	Announcement of the Exercise of "Zhongxing ZXC1" Warrants
23 February 2010	China Securities Journal Shanghai Securities News Securities Times	C08 B14 A4	Announcement of the Termination of the Listing of "Zhongxing ZXC1" Warrants
23 February 2010	China Securities Journal Shanghai Securities News Securities Times	C08 B14 A4	Announcement of Resolutions of the Thirty-third Meeting of the Fourth Session of the Board of Directors
24 February 2010	China Securities Journal Shanghai Securities News Securities Times	B04 B14 B6	Announcement of Results of the exercise of the "Zhongxing ZXC1" Warrants and Changes in Shareholding
27 February 2010	China Securities Journal Shanghai Securities News Securities Times	B08 40 B16	Announcement of the First Unlocking of Shares under the Share Incentive Scheme Granted to Directors and Senior Management
10 March 2010	China Securities Journal Shanghai Securities News Securities Times	B04 B24 D4	Indicative Announcement on the Convening of 2010 First Extraordinary General Meeting
18 March 2010	China Securities Journal Shanghai Securities News Securities Times	D024 B52 D16	Announcement of the Agreement for Tripartite Supervision of Issue Proceeds
25 March 2010	China Securities Journal Shanghai Securities News Securities Times	D029 B57 D4	Announcement of Replacement of Sponsor's Representative
25 March 2010	China Securities Journal Shanghai Securities News Securities Times	D029 B57 D4	Announcement of Resolutions of the Thirty-fourth Meeting of the Fourth Session of the Board of Directors
25 March 2010	China Securities Journal Shanghai Securities News Securities Times	D029 B57 D4	Announcement of the Replacement of Internal Funds Previously Invested in Issue Proceed Investment Projects with Proceeds from the Issue of Bonds cum Warrants
27 March 2010	China Securities Journal Shanghai Securities News Securities Times	C008 190 B32	Announcement of Proposed IPO of Investee Nationz Technologies Inc. approved by CSRC GEM Issue Approval Committee
31 March 2010	China Securities Journal Shanghai Securities News Securities Times	D004 B208 D40	Announcement of Resolutions of the First Extraordinary General Meeting of 2010
31 March 2010	China Securities Journal Shanghai Securities News Securities Times	D004 B208 D40	Announcement of Resolutions of the First Meeting of the Fifth Session of the Board of Directors
31 March 2010	China Securities Journal Shanghai Securities News Securities Times	D004 B208 D40	Announcement of the Board of Directors

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Date	Newspaper	Page No.	Announcement
31 March 2010	China Securities Journal Shanghai Securities News Securities Times	D004 B208 D40	Announcement of Resolutions of the First Meeting of the Fifth Session of the Supervisory Committee
9 April 2010	China Securities Journal Shanghai Securities News Securities Times	/ B9 D33	Announcement of Resolutions of the Second Meeting of the Fifth Session of the Board of Directors
9 April 2010	China Securities Journal Shanghai Securities News Securities Times	/ B9 D33	2009 Annual Report Summary
9 April 2010	China Securities Journal Shanghai Securities News Securities Times	/ B9 D35	Announcement of the Acquisition of Assets and Connected Transaction
9 April 2010	China Securities Journal Shanghai Securities News Securities Times	/ B10 D35	Notice of the 2009 Annual General Meeting
9 April 2010	China Securities Journal Shanghai Securities News Securities Times	/ B10 D35	Announcement of Resolutions of the Second Meeting of the Fifth Session of the Supervisory Committee
28 April 2010	China Securities Journal Shanghai Securities News Securities Times	D030 B75 D64	Announcement of Resolutions of the Third Meeting of the Fifth Session of the Board of Directors
28 April 2010	China Securities Journal Shanghai Securities News Securities Times	D030 B75 D64	2010 First Quarterly Report
28 April 2010	China Securities Journal Shanghai Securities News Securities Times	D030 B75 D64	Announcement of Connected Transaction
28 April 2010	China Securities Journal Shanghai Securities News Securities Times	D030 B75 D64	Announcement of External Guarantee
28 April 2010	China Securities Journal Shanghai Securities News Securities Times	D030 B75 D64	Announcement of Resolutions of the Third Meeting of the Fifth Session of the Supervisory Committee
18 May 2010	China Securities Journal Shanghai Securities News Securities Times	B012 B22 D17	Supplemental Notice on the ex Tempore Motion at the Annual General Meeting of 2009
18 May 2010	China Securities Journal Shanghai Securities News Securities Times	B012 B22 D17	Indicative Announcement on the Convening of 2009 Annual General Meeting (after the addition of new motions)
21 May 2010	China Securities Journal Shanghai Securities News Securities Times	B004 B27 D13	Announcement of Resolutions of the Fourth Meeting of the Fifth Session of the Board of Directors
21 May 2010	China Securities Journal Shanghai Securities News Securities Times	B004 B27 D13	Announcement of Resolutions of the Fourth Meeting of the Fifth Session of the Supervisory Committee
3 June 2010	China Securities Journal Shanghai Securities News Securities Times	B004 B16 A9	Announcement of Waiver by CSRC of the Controlling Shareholder's Obligation to Make a General Offer for the Company's Shares
4 June 2010	China Securities Journal Shanghai Securities News Securities Times	B020 B22 D11	Announcement of the Resolutions of the 2009 Annual General Meeting

Date	Newspaper	Page No.	Announcement
4 June 2010	China Securities Journal Shanghai Securities News Securities Times	B020 B22 D11	Announcement of the Completion of the Second Unlocking of Subject Shares under the First Award of the Phase I Share Incentive Scheme
18 June 2010	China Securities Journal Shanghai Securities News Securities Times	B017 B24 B8	Announcement on the Implementation of 2009 Equity Distribution
18 June 2010	China Securities Journal Shanghai Securities News Securities Times	B017 B24 B8	Announcement of Resignation of Staff Representative Supervisor
22 June 2010	China Securities Journal Shanghai Securities News Securities Times	B005 B32 D12	Announcement of Election of Staff Representative Supervisor of the Fifth Session of the Supervisory Committee of the Company
23 June 2010	China Securities Journal Shanghai Securities News Securities Times	B005 B24 D8	Indicative Announcement on the Implementation of 2009 Equity Distribution
1 July 2010	China Securities Journal Shanghai Securities News Securities Times	B008 B16 D9	Announcement of Resolutions of the Fifth Meeting of the Fifth Session of the Board of Directors
17 July 2010	China Securities Journal Shanghai Securities News Securities Times	B008 24 17	Announcement of Resolutions of the Sixth Meeting of the Fifth Session of the Board of Directors
17 July 2010	China Securities Journal Shanghai Securities News Securities Times	B008 24 17	Announcement of External Investment
24 July 2010	China Securities Journal Shanghai Securities News Securities Times	B016 22 B13	Announcement of Resolutions of the Seventh Meeting of the Fifth Session of the Board of Directors
24 July 2010	China Securities Journal Shanghai Securities News Securities Times	B016 22 B13	Announcement of Investment in Foreign Exchange Derivative Products for Value Protection
24 July 2010	China Securities Journal Shanghai Securities News Securities Times	B016 22 B13	Notice of the Second Extraordinary General Meeting of 2010
14 August 2010	China Securities Journal Shanghai Securities News Securities Times	B029 49 B004	Clarification announcement

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

Consolidated Balance Sheet

(Prepared under PRC ASBEs)
Currency: RMB'000

	Note V	**30 June 2010 (Unaudited)**	31 December 2009 (Audited)
Assets			
Current assets			
Cash on hand and at bank	1	**12,545,796**	14,496,808
Derivative financial assets	2	**77,776**	—
Bills receivable	3	**2,358,794**	779,112
Trade receivables	4	**16,478,768**	15,319,215
Factored trade receivables	4	**2,887,541**	2,870,221
Prepayments	6	**459,159**	355,422
Other receivables	5	**1,320,397**	1,059,829
Inventories	7	**11,345,804**	9,324,800
Amount due from customers for contract work	8	**11,237,486**	11,388,496
Total current assets		**58,711,521**	55,593,903
Non-current assets			
Available-for-sale financial assets	9	**257,908**	253,760
Long-term receivables	10	**950,355**	383,749
Factored long-term receivables	10	**3,320,883**	2,968,629
Long-term equity investments	12	**902,027**	440,282
Fixed assets	13	**5,032,154**	4,714,533
Construction in progress	14	**1,705,841**	1,332,735
Intangible assets	15	**646,465**	613,773
Development costs	15	**1,142,539**	778,375
Deferred tax assets	16	**524,496**	643,918
Long-term deferred assets		**5,889**	10,306
Other non-current assets	1	**856,912**	608,359
Total non-current assets		**15,345,469**	12,748,419
Total assets		**74,056,990**	68,342,322

Consolidated Balance Sheet (continued)

(Prepared under PRC ASBEs)
Currency: RMB'000

	Note V	30 June 2010 (Unaudited)	31 December 2009 (Audited)
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans	18	**5,423,154**	4,906,503
Bank advances on factored trade receivables	4	**2,887,541**	2,870,221
Bills payable	19	**7,047,457**	8,484,861
Trade payables	20	**14,054,488**	13,046,804
Amount due to customers for contract work	8	**2,751,409**	2,519,706
Advances from customers	21	**3,148,375**	2,337,628
Salary and welfare payables	22	**1,558,536**	2,398,720
Taxes payable	23	**(259,858)**	77,715
Dividend payable	24	**128,143**	16,966
Other payables	25	**2,699,491**	2,213,477
Deferred income		**226,474**	92,830
Provision	26	**202,371**	189,664
Long-term loans due within one year	27	**3,556,203**	1,939,965
Total current liabilities		**43,423,784**	41,095,060
Non-current liabilities			
Long-term loans	28	**1,319,181**	2,396,393
Bank advances on factored long-term trade receivables	10	**3,320,883**	2,968,629
Bonds payable	29	**3,678,023**	3,632,681
Deferred tax liabilities	16	**3,551**	3,924
Other non-current liabilities	30	**347,478**	296,769
Total non-current liabilities		**8,669,116**	9,298,396
Total liabilities		**52,092,900**	50,393,456
Shareholders' equity			
Share capital	31	**2,866,732**	1,831,336
Capital reserves	32	**9,434,158**	6,749,899
Restricted shares remaining in lock-up	33	**(290,572)**	(447,235)
Surplus reserves	34	**1,505,203**	1,505,203
Retained profits	35	**7,723,235**	6,853,682
Proposed final dividend	35	**—**	552,425
Foreign currency translation difference		**(355,033)**	(220,043)
Total equity attributable to equity holders of the parent		**20,883,723**	16,825,267
Minority interests		**1,080,367**	1,123,599
Total shareholders' equity		**21,964,090**	17,948,866
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**74,056,990**	68,342,322

The financial statements set out on page 216 to page 337 have been signed by the following persons:

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

Consolidated Income Statement

(Prepared under PRC ASBEs)
Currency: RMB'000

	Note V	**Six months ended 30 June 2010 (Unaudited)**	Six months ended 30 June 2009 (Unaudited)
Operating revenue	36	**30,725,420**	27,707,646
Less: Operating costs	36	**20,446,914**	18,824,349
Taxes and surcharges	38	**467,512**	300,045
Selling and distribution costs		**4,000,052**	3,177,139
Administrative expenses		**1,150,959**	1,367,727
Research and development costs		**3,195,277**	2,606,448
Finance expenses	41	**740,635**	367,352
Impairment losses	42	**152,089**	445,929
Add: Gains/(losses) from changes in fair values	39	**77,926**	12,648
Investment income	40	**23,978**	2,350
Including: Share of profits of associates and jointly-controlled entities	40	**22,197**	10,460
Operating profit		**673,886**	633,655
Add: Non-operating income	43	**743,811**	620,153
Less: Non-operating expenses	43	**24,838**	42,612
Including: Gains and losses on disposal of non-current assets		**10,222**	6,598
Total profit		**1,392,859**	1,211,196
Less: Income tax	44	**399,571**	342,457
Net profit		**993,288**	868,739
Net profit attributable to equity holders of the parent		**877,489**	783,367
Minority interests		**115,799**	85,372
Earnings per share	45		
Basic earnings per share		**RMB0.32**	RMB0.30
Diluted earnings per share		**RMB0.31**	RMB0.29
Other comprehensive income	46	**(135,085)**	(46,371)
Total comprehensive income		**858,203**	822,368
Including:			
Total comprehensive income attributable to equity holders of the parent		**742,499**	736,996
Total comprehensive income attributable to minority interests		**115,704**	85,372

Consolidated Statement of Changes in Equity

(Prepared under PRC ASBEs)
Currency: RMB'000

	For the six months ended 30 June 2010 (unaudited)									
	Attributable to shareholders' equity of the parent									
	Share capital	Capital reserves	Restricted shares remaining in lock-up	Surplus reserve	Retained profit	Proposed final dividend	Foreign currency translation difference	Sub-total	Minority interests	Total shareholders' equity
I. Opening balance for the period	1,831,336	6,749,899	(447,235)	1,505,203	6,853,682	552,425	(220,043)	16,825,267	1,123,599	17,948,866
II. Change during the period										
(I) Net profit	–	–	–	–	877,489	–	–	877,489	115,799	993,288
(II) Other comprehensive income	–	–	–	–	–	–	(134,990)	(134,990)	(95)	(135,085)
Total comprehensive income	–	–	–	–	877,489	–	(134,990)	742,499	115,704	858,203
(III) Shareholders' contributions and capital reduction										
1. Capital contributions from shareholders	79,819	3,117,060	156,663	–	–	–	–	3,353,542	–	3,353,542
2. Share-based payments charged to shareholders' equity	–	79,478	–	–	–	–	–	79,478	–	79,478
3. Others	–	–	–	–	–	–	–	–	(2,200)	(2,200)
(IV) Profit appropriation										
1. Appropriation to surplus reserve	–	–	–	–	–	–	–	–	–	–
2. Distribution to shareholders	–	–	–	–	(7,936)	(552,425)	–	(560,361)	(156,736)	(717,097)
3. Proposed final dividend	–	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–	–
(V) Transfer of shareholders' equity										
1. Transfer of capital reserve to share capital	955,577	(955,577)	–	–	–	–	–	–	–	–
2. Transfer of surplus reserve to share capital	–	–	–	–	–	–	–	–	–	–
3. Surplus reserve making up of losses	–	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–	–
(VI) Others										
1. Effect of changes of other equity holders' interests in invested entities by equity method	–	443,298	–	–	–	–	–	443,298	–	443,298
III. Close balance for the period	2,866,732	9,434,158	(290,572)	1,505,203	7,723,235	–	(355,033)	20,883,723	1,080,367	21,964,090

Consolidated Statement of Changes in Equity (continued)

(Prepared under PRC ASBEs)
Currency: RMB'000

	For the six months ended 30 June 2009 (unaudited)								
	Attributable to shareholders' equity of the parent								
	Share capital	Capital reserves	Surplus reserve	Retained profit	Proposed final dividend	Foreign currency translation difference	Sub-total	Minority interests	Total shareholders' equity
I. Opening balance for the period	1,343,330	6,298,172	1,431,820	5,021,369	402,999	(248,146)	14,249,544	934,003	15,183,547
II. Change during the period									
(I) Net profit	–	–	–	783,367	–	–	783,367	85,372	868,739
(II) Other comprehensive income	–	–	–	–	–	(46,371)	(46,371)	–	(46,371)
Total comprehensive income	–	–	–	783,367	–	(46,371)	736,996	85,372	822,368
(III) Shareholders' contributions and capital reduction									
1. Capital contributions from shareholders	–	–	–	–	–	–	–	1,200	1,200
2. Share-based payments charged to shareholders' equity	–	177,887	–	–	–	–	177,887	–	177,887
3. Others	–	(7)	(121)	–	–	–	(128)	(8,918)	(9,046)
(IV) Profit appropriation									
1. Appropriation to surplus reserve	–	–	128	(128)	–	–	–	–	–
2. Distribution to shareholders	–	–	–	–	(402,999)	–	(402,999)	(37,273)	(440,272)
3. Proposed final dividend	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–
(V) Transfer of shareholders' equity									
1. Transfer of capital reserve to share capital	402,999	(402,999)	–	–	–	–	–	–	–
2. Transfer of surplus reserve to share capital	–	–	–	–	–	–	–	–	–
3. Surplus reserve making up of losses	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–
(VI) Others									
1. Issue of Bonds cum Warrants	–	–	–	–	–	–	–	–	–
2. Others	–	–	–	–	–	–	–	(19,439)	(19,439)
III. Close balance for the period	1,746,329	6,073,053	1,431,827	5,804,608	–	(294,517)	14,761,300	954,945	15,716,245

Consolidated Cash Flow Statement

(Prepared under PRC ASBEs)
Currency: RMB'000

	Note V	**Six months ended 30 June 2010 (Unaudited)**	Six months ended 30 June 2009 (Unaudited)
I. Cash flows from operating activities			
Cash received from sale of goods or rendering services		**31,398,128**	22,127,889
Cash received from taxes returned		**1,986,587**	1,695,724
Cash received relating to other operating activities	47	**444,551**	133,835
Sub-total of cash inflow		**33,829,266**	23,957,448
Cash paid for goods and services		**23,229,494**	15,814,789
Cash paid to and on behalf of employees		**5,844,914**	4,243,320
Payments of taxes and levies		**3,139,200**	1,494,958
Cash paid relating to other operating activities	47	**5,299,970**	3,579,584
Sub-total of cash outflow		**37,513,578**	25,132,651
Net cash flows from operating activities	48	**(3,684,312)**	(1,175,203)
II. Cash flows from investing activities			
Cash received from sale of investments		**—**	2,808
Cash received from gains of investments		**3,581**	8,229
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**2,983**	488
Sub-total of cash inflow		**6,564**	11,525
Cash paid to acquire fixed asset, intangible assets and other long term assets		**1,433,074**	390,832
Cash paid for investment		**4,500**	16,976
Sub-total of cash outflow		**1,437,574**	407,808
Net cash flow from investing activities		**(1,431,010)**	(396,283)
III. Cash flows from financing activities			
Cash received from investment		**3,197,918**	33,956
Including: Capital contributed to the subsidiaries by minority interests		**—**	—
Cash received from borrowings		**4,834,596**	7,638,557
Sub-total of cash inflow		**8,032,514**	7,672,513
Cash paid for debt repayments		**3,778,919**	4,575,017
Cash payments for distribution of dividends, profit or interest expenses		**912,571**	743,149
Sub-total of cash outflow		**4,691,490**	5,318,166
Net cash flow from financing activities		**3,341,024**	2,354,347
IV. Effect of changes in foreign exchange rate on cash and cash equivalents		**(15,988)**	(50,178)
V. Net increase in cash and cash equivalents		**(1,790,286)**	732,683
Add: Opening balance of cash and cash equivalents		**14,075,822**	11,344,160
VI. Closing balance of cash and cash equivalents	48	**12,285,536**	12,076,843

Balance Sheet

(Prepared under PRC ASBEs)
Currency: RMB'000

	Note XII	**30 June 2010 (Unaudited)**	31 December 2009 (Audited)
Assets			
Current assets			
Cash on hand and at bank		**8,575,024**	10,096,875
Bills receivable		**2,243,709**	672,374
Trade receivables	1	**21,703,058**	19,557,131
Factored trade receivables	1	**2,563,587**	2,727,445
Prepayments		**183,393**	173,408
Dividend receivable		**1,017,418**	1,017,020
Other receivables	2	**2,848,111**	3,240,367
Inventories		**4,624,981**	4,747,278
Amount due from customers for contract work		**10,074,981**	10,829,088
Total current assets		**53,834,262**	53,060,986
Non-current assets			
Available-for-sale financial assets	3	**244,448**	244,448
Long-term receivables	4	**1,984,858**	1,347,932
Factored long-term receivables	4	**3,445,883**	3,093,629
Long-term equity investments	5	**2,691,282**	2,196,637
Fixed assets		**3,446,041**	3,195,746
Construction in progress		**1,126,605**	790,491
Intangible assets		**474,517**	481,171
Development costs		**237,493**	151,564
Deferred tax assets		**255,850**	382,537
Other non-current assets		**856,912**	608,359
Total non-current assets		**14,763,889**	12,492,514
Total assets		**68,598,151**	65,553,500

Balance Sheet (continued)

(Prepared under PRC ASBEs)
Currency: RMB'000

	Note XII	30 June 2010 (Unaudited)	31 December 2009 (Audited)
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans		**4,111,874**	3,388,734
Bank advances on factored trade receivables	1	**2,563,587**	2,727,445
Bills payable		**8,037,742**	9,473,080
Trade payables		**17,525,765**	17,834,626
Amount due to customers for contract work		**1,875,320**	2,153,082
Advances from customers		**3,031,409**	2,039,175
Salary and welfare payables		**262,872**	878,705
Taxes payable		**(329,183)**	(307,988)
Dividend payable		**991**	75
Other payables		**5,293,925**	5,662,122
Deferred income		**110,887**	33,237
Provision		**96,712**	88,298
Long-term loans due within one year		**2,813,363**	1,204,846
Total current liabilities		**45,395,264**	45,175,437
Non-current liabilities			
Long-term loans		**746,999**	1,742,512
Bank advances on factored long-term trade receivables	4	**3,445,883**	3,093,629
Bonds payable		**3,678,023**	3,632,681
Deferred tax liabilities		**2,169**	1,143
Other non-current liabilities		**347,478**	296,769
Total non-current liabilities		**8,220,552**	8,766,734
Total liabilities		**53,615,816**	53,942,171
Shareholders' equity			
Share capital		**2,866,732**	1,831,336
Capital reserves		**9,430,015**	6,745,877
Restricted shares remaining in lock-up		**(290,572)**	(447,235)
Surplus reserve		**842,986**	842,986
Retained profits		**2,148,190**	2,100,753
Proposed final dividend		**—**	552,425
Foreign currency translation difference		**(15,016)**	(14,813)
Total shareholders' equity		**14,982,335**	11,611,329
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**68,598,151**	65,553,500

Income Statement

(Prepared under PRC ASBEs)
Currency: RMB'000

	Note XII	Six months ended 30 June 2010 (Unaudited)	Six months ended 30 June 2009 (Unaudited)
Operating revenue	6	**27,241,412**	25,877,672
Less: Operating costs	6	**22,887,054**	21,049,253
Taxes and surcharges		**82,690**	56,821
Selling and distribution costs		**2,841,351**	2,532,147
Administrative expenses		**627,215**	813,699
Research and development costs		**572,845**	655,795
Finance expenses		**723,057**	393,012
Impairment losses		**179,794**	307,927
Add: Gains/(losses) from changes in fair values		**—**	12,559
Investment income	7	**594,562**	50,583
Including: Share of profits of associates and jointly-controlled entities	7	**12,898**	6,952
Operating profit		**(78,032)**	132,160
Add: Non-operating income		**119,078**	71,882
Less: Non-operating expenses		**4,772**	10,242
Including: Gains and losses on disposal of non-current assets		**3,477**	—
Total profit		**36,274**	193,800
Less: Income tax		**(19,099)**	119,056
Net profit		**55,373**	74,744
Other comprehensive income		**(203)**	(571)
Total comprehensive income		**55,170**	74,173

Statement of Changes in Equity

(Prepared under PRC ASBEs)
Currency: RMB'000

	For the six months ended 30 June 2010 (unaudited)							
	Share capital	Capital reserves	Restricted shares remaining in lock-up	Surplus reserve	Retained profit	Proposed final dividend	Foreign currency translation difference	Total shareholders' equity
I. Opening balance for the period	1,831,336	6,745,877	(447,235)	842,986	2,100,753	552,425	(14,813)	11,611,329
II. Change during the period								
(I) Net profit	–	–	–	–	55,373	–	–	55,373
(II) Other comprehensive income	–	–	–	–	–	–	(203)	(203)
Total comprehensive income	–	–	–	–	55,373	–	(203)	55,170
(III) Shareholders' contributions and capital reduction								
1. Capital contributions from shareholders	79,819	3,116,945	156,663	–	–	–	–	3,353,427
2. Share-based payments charged to shareholders' equity	–	79,478	–	–	–	–	–	79,478
3. Others	–	–	–	–	–	–	–	–
(IV) Profit appropriation								
1. Appropriation to surplus reserve	–	–	–	–	–	–	–	–
2. Distribution to shareholders	–	–	–	–	(7,936)	(552,425)	–	(560,361)
3. Proposed final dividend	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–
(V) Transfer of shareholders' equity								
1. Transfer of capital reserve to share capital	955,577	(955,577)	–	–	–	–	–	–
2. Transfer of surplus reserve to share capital	–	–	–	–	–	–	–	–
3. Surplus reserve making up of losses	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–
(VI) Others								
1. Effect of changes of other equity holders' interests in invested entities by equity method	–	443,292	–	–	–	–	–	443,292
III. Close balance for the period	2,866,732	9,430,015	(290,572)	842,986	2,148,190	–	(15,016)	14,982,335

Statement of Changes in Equity (continued)

(Prepared under PRC ASBEs)
Currency: RMB'000

	For the six months ended 30 June 2009 (unaudited)						
	Share capital	Capital reserves	Surplus reserve	Retained profit	Proposed final dividend	Foreign currency translation difference	Total shareholders' equity
I. Opening balance for the period	1,343,330	6,271,137	769,603	1,992,735	402,999	(11,493)	10,768,311
II. Change during the period							
(I) Net profit	–	–	–	74,744	–	–	74,744
(II) Other comprehensive income	–	–	–	–	–	(571)	(571)
Total comprehensive income	–	–	–	74,744	–	(571)	74,173
(III) Shareholders' contributions and capital reduction							
1. Capital contributions from shareholders	–	–	–	–	–	–	–
2. Share-based payments charged to shareholders' equity	–	177,887	–	–	–	–	177,887
3. Others	–	(7)	(121)	–	–	–	(128)
(IV) Profit appropriation							
1. Appropriation to surplus reserve	–	–	–	–	–	–	–
2. Distribution to shareholders	–	–	–	–	(402,999)	–	(402,999)
3. Proposed final dividend	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–
(V) Transfer of shareholders' equity	–						
1. Transfer of capital reserve to share capital	402,999	(402,999)	–	–	–	–	–
2. Transfer of surplus reserve to share capital	–	–	–	–	–	–	–
3. Surplus reserve making up of losses	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–
(VI) Others							
1. Issue of Bonds cum Warrants	–	–	–	–	–	–	–
2. Effect of changes of other equity holders' interests in invested entities by equity method	–	–	–	–	–	–	–
III. Close balance for the period	1,746,329	6,046,018	769,482	2,067,479	–	(12,064)	10,617,244

Cash Flow Statement

(Prepared under PRC ASBEs)
Currency: RMB'000

	Six months ended 30 June 2010 (Unaudited)	Six months ended 30 June 2009 (Unaudited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering services	**26,916,276**	20,925,787
Cash received from taxes returned	**1,561,518**	1,142,593
Cash received relating to other operating activities	**217,250**	93,915
Sub-total of cash inflow	**28,695,044**	22,162,295
Cash paid for goods and services	**26,989,354**	21,010,570
Cash paid to and on behalf of employees	**1,424,783**	1,110,119
Payments of taxes and levies	**330,638**	95,665
Cash paid relating to other operating activities	**4,001,059**	3,424,254
Sub-total of cash outflow	**32,745,834**	25,640,608
Net cash flows from operating activities	**(4,050,790)**	(3,478,313)
II. Cash flows from investing activities		
Cash received from sale of investments	**—**	—
Cash received from gains of investments	**41,267**	48,067
Sub-total of cash inflow	**41,267**	48,067
Cash paid to acquire fixed asset, intangible assets and other long term assets	**985,214**	311,199
Cash paid for investment	**—**	134,176
Sub-total of cash outflow	**985,214**	445,375
Net cash flow from investing activities	**(943,947)**	(397,308)
III. Cash flows from financing activities		
Cash received from investments	**3,197,918**	33,456
Cash received from borrowings	**3,577,794**	5,398,483
Sub-total of cash inflow	**6,775,712**	5,431,939
Cash paid for debt repayments	**2,241,650**	1,704,784
Cash payments for distribution of dividends, profit or interest expenses	**859,408**	685,089
Sub-total of cash outflow	**3,101,058**	2,389,873
Net cash flow from financing activities	**3,674,654**	3,042,066
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	**(45,172)**	(63,458)
V. Net increase in cash and cash equivalents	**(1,365,255)**	(897,013)
Add: Opening balance of cash and cash equivalents	**9,808,228**	8,323,750
VI. Closing balance of cash and cash equivalents	**8,442,973**	7,426,737

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

I. CORPORATE BACKGROUND

ZTE Corporation (the "Company") was a limited liability company jointly founded by Shenzhen Zhongxingxin Telecommunications Equipment Company Limited, China Precision Machinery Import & Export Shenzhen Company, Lishan Microelectronics Corporation, Shenzhen Zhaoke Investment Development Company 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 ("PRC") 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 Company Limited transferred its entire shares in the Company to Shenzhen Gaotejia Venture Investment Company Limited. The date of the share transfer was more than three years from the date of establishment of the Company and therefore was in compliance with the applicable provision under the PRC Company Law. In December 2003, Shenzhen Gaotejia Venture Investment Company Limited transferred its entire shares in the Company to Fortune Trust & Investment Company Ltd. Fortune Trust & Investment Company Ltd. transferred its entire shares in the Company to Jade Dragon (Mauritius) Company Limited in November 2005. On 29 December 2006, the shares of the Company owned 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 440301103852869 (revised on 23 February 2009). 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); specialized sub-contracting of telecommunications projects.

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

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

I. CORPORATE BACKGROUND (CONTINUED)

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 31 December 2008, all restricted shares held by the controlling shareholder had been converted into unrestricted shares.

Pursuant to a resolution of the 2007 annual general meeting of the Company, the share capital of the Company was increased by 383,808,660 shares in 2008 by way of capitalization of reserves with the issue of 4 Shares for every 10 Shares on the basis of the Company's share capital of 959,521,650 shares as at 31 December 2007. The registered share capital of the Company increased to RMB1,343,330,310 upon completion of the capitalisation.

Pursuant to a resolution of the 2008 annual general meeting of the Company, the share capital of the Company was increased by 402,999,092 shares in 2009 by way of capitalization of reserves with the issue of 3 Shares for every 10 Shares on the basis of the Company's share capital of 1,343,330,310 shares as at 31 December 2008. The registered capital of the Company increased to RMB1,746,329,402 upon completion of the capitalisation.

At the Twenty-sixth Meeting of the Fourth Session of the Board of Directors of the Company held on 6 July 2009, it was ratified that a total Subject Share quota of 85,050,238 shares had been granted to 4,022 Scheme Participants under the Phase I Share Incentive Scheme of the Company. After the deduction of Subject Share quota of 43,425 shares which had lapsed, the total number issued share capital of the Company has increased by 85,006,813 shares. After the grant, the total number of the Company's issued share capital on an accumulative basis was 1,831,336,215 shares.

Following the completion of the placing of new H shares by the Company on 21 January 2010 with the allotment and issue of 58,294,800 new H shares, the total share capital of the Company was increased from 1,831,336,215 shares to 1,889,631,015 shares. The change in share capital has been verified by Lixin Dahua Certified Public Accountants, who has furnished a capital verification report Li Xin Da Hua Yan Zi [2010] No. 046.

As at the close of trading for "ZXC1" Warrants on 12 February 2010, a total of 23,348,590 "ZXC1" Warrants (representing approximately 35.81% of the number of warrants prior to the exercise) had been exercised and a total of 41,851,410 unexercised Warrants were cancelled. Following the exercise of new warrants, the number of A shares was increased by 21,523,441 shares and the total share capital of the Company was increased from 1,889,631,015 shares before the exercise to 1,911,154,456 shares. The change in share capital has been verified by Lixin Dahua Certified Public Accountants, who has furnished a capital verification report Li Xin Da Hua Yan Zi [2010] No. 027.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

I. CORPORATE BACKGROUND (CONTINUED)

As at 12 March 2010, 3,239 Scheme Participants under the First Award had satisfied conditions for the Second Unlocking of Subject Shares under the Phase I Share Incentive Scheme and a total of 26,452,094 A share Subject Shares were unlocked in the Second Unlocking. The unlocking resulted in a change in the internal structure of the share capital, while the number of total share capital remained unchanged.

On 24 June 2010, the Company implemented the 2009 profit distribution and capitalisation of the capital reserve plan: 5 bonus shares for every 10 shares were issued by way of capitalisation of the capital reserve based on the number of shares held by registered shareholders on the record date. The share capital was enlarged by a total of 955,577,228 shares to a total of 2,866,731,684 shares. The change in share capital has been verified by Ernst & Young Hua Ming Shenzhen Branch, who has furnished a verification report An Yong Hua Ming [2010] Yan Zi No. 60438556-H01.

As at 30 June 2010, the total number of the Company's issued share capital on accumulative basis was 2,866,731,684 shares. Please refer to Note V.31 for detail.

The controlling shareholder of the Group is Shenzhen Zhongxingxin Telecommunications Equipment Company Limited, a company incorporated in the PRC.

The financial statements were approved by the Board of Directors of the Company by way of resolution on 19 August 2010.

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Basis of preparation

These financial statements have been prepared in accordance with the "Enterprise Accounting Standards — Basic Standards" and 38 specific accounting standards, subsequent practice notes, interpretations and other relevant regulations (collectively "ABSEs") promulgated by the Ministry of Finance in February 2006.

The financial statements are prepared on a going concern 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 made according to relevant regulation if the assets are impaired.

2. Statement of compliance

The financial statements truly and completely reflect the financial position of the Group and the Company as at 30 June 2010 and the results of their operations and their cash flows for the year ended 30 June 2010.

3. Financial year

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

4. Reporting currency

Reporting currency and the currency used in preparing the financial statements were Renminbi. The amounts in the financial statements were denominated in thousand of 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)
Currency: RMB'000

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

5. 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 combining 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 combined. The combination date is the date on which the combining party effectively obtains control of the parties being combined.

Assets and liabilities obtained by combining party in the business combination are recognized at their carrying amounts at the combination date as recorded by the party being combined. 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 profits.

Any costs directly attributable to the combination are recognized as expenses when incurred by the combining 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 acquisition is measured as the aggregate of the fair values of the assets given, liabilities incurred or assumed, equity instruments issued by the acquirer at the acquisition date, and all the costs incurred directly attributable to the acquisition, in exchange for control of the acquiree. The cost of acquisition of a business combination which is completed through multiple transactions is the sum of the cost of each transaction. Where a future event which is likely to affect combination costs has been agreed upon in the combination contract, and it is estimated as at the acquisition date that occurrence of the future event is likely and that the amount of impact on the combination cost can be reliably measured, such impact should be included in the combination cost.

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

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

5. Business combination (continued)

Business combinations not involving entities under common control (continued)

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 recognized 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.

6. 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 for the year ended 30 June 2010. Subsidiaries are those enterprises or entities which the Company has control over.

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

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

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

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

7. Cash and cash equivalents

Cash comprises cash on hand and deposits readily available for payments. Cash equivalents represent 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)
Currency: RMB'000

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

8. Foreign currency translation

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

Upon initial recognition, foreign currency transactions are translated into the functional currency using the average exchange rate for the period when 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 those relating to foreign currency borrowings for the acquisition, construction or production of assets eligible for the capitalization shall be dealt with according to the principle of capitalization of borrowing costs, are recognized 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. The exchange differences arising from the above translation are recognized in current profit or loss or other comprehensive income.

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 profits, 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 periods when transactions occur. Translation differences arising from the above translation are presented as a separate line item under shareholders' equity in the balance sheet. When foreign operations are disposed, other comprehensive income relating to the foreign operation is transferred to current profit or loss. Partial disposal shall be recognized on a pro-rata basis.

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 by the fluctuation of exchange rates is presented as a separate line item of reconciliation in the cash flow statement.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. 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 recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the financial instrument.

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

(1) The right of receiving the cash flow generated from the financial asset has expired;

(2) The right of receiving cash flow generated by the financial assets is transferred, or an obligation of paying the full amount of cash flow received to third parties in a timely manner has been undertaken under "pass-through" agreements, where (a) substantially all risks and rewards of the ownership of such financial assets have been transferred, or (b) control over such financial assets has not been retained even though substantially all risks and rewards of the ownership of such financial assets have been neither transferred nor retained.

If the obligation of financial liability has been fulfilled, cancelled or expired, the financial liability is derecognized. 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 differences recognized in profit or loss.

Conventional dealings in financial assets are recognised or derecognised under the trade day accounting method. Conventional dealings refer to the receipt or delivery of financial assets within periods stipulated by the law and according to usual practices. The trade day is the date on which the Group undertakes to buy or sell a financial asset.

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 recognized at fair value. For financial assets at fair value through profit or loss, the relevant transaction costs are directly recognized in profit or loss; for other financial assets, the relevant transaction costs are recognized in their initial recognition amount.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Classification and valuation of financial assets (continued)

The subsequent measurement of financial assets is dependent on its classification:

Financial assets at fair value through profit or loss

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

Held-to-maturity investments

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains or losses are recognized in the current profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization 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. Gains or losses arising from fair value changes in available-for-sale financial assets, except for impairment losses and foreign currency monetary items' translation differences which are recognized in profit or loss, are recognized as other comprehensive income in capital reserves until the financial assets are derecognized or impaired upon which the cumulative gains or losses are transferred out from capital reserves to profit or loss. Dividends or interest income derived from available-for-sale financial assets is recognized in profit or loss.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Classification and valuation of financial assets (continued)

Available-for-sale financial assets (continued)

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

Classification and valuation of financial liabilities

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

The subsequent measurement of financial assets is dependent on its classification:

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

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

Financial guarantee contracts

A financial guarantee contract is a contract under which the guarantor and the creditor agree that the guarantor shall assume the debts or liability in the event of default of the debtor. Financial guarantee contracts are initially recognized as liability 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: (i) the amount of the best estimates of the expenditure required to settle the present obligations at the balance sheet date; and (ii) the initial amount less accumulated amortization.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

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 recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivatives linked to and settled by way of delivery of equity investments not quoted in an active market and whose fair value cannot be reliably measured that are not quoted in an active market and whose fair value cannot be reliably measured are carried at cost.

Any gains or losses arising from the change in fair value on derivatives are taken directly to the income statement, except for those falling under cash flow hedging, which shall be recognized in other comprehensive income.

Bonds cum warrants

Upon issuance, the Group determines in accordance with the terms of the bonds cum warrants whether such bonds cum warrants consist of both equity and liability components. For bonds cum warrants that carry both equity and liability components, liability and equity are separately dealt with upon initial recognition. During the segregation, the fair value of the liability is first determined and recognized. Then the initial recognition of the equity component is determined by deducting the initial liability recognition amount from the overall issue price of the bonds cum warrants. Transaction costs are apportioned between liability and equity components according to their respective fair values. The liability component is presented as liability and subsequently measured on an amortised cost basis, until it is cancelled, converted or redeemed. The equity component is presented as equity and not remeasured in subsequent years.

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 without active market, the fair value is established by using valuation techniques. Valuation techniques include reference to most recent market prices used by knowledgeable and willingness parties, reference to current fair value of other financial instrument with similar nature, discounted cash flow method and option valuation models.

Impairment of financial assets

The Group assesses the carrying amount of financial assets at the balance sheet date. 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, having an impact on financial assets' estimated future cash flows, and such impact can be reliably measured.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost

If there is objective evidence that an impairment loss on such financial assets has been incurred, the financial asset's carrying amount is reduced to 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 (namely the effective interest rate determined at initial recognition), taking into account the value of relevant collaterals. If floating interest rates are used, the current effective interest rate stipulated in the contract shall be adopted as the discount rate in calculating the present value of the future cash flows.

For a financial asset that is individually significant, the Group assesses the asset individually for impairment if there is objective evidence of impairment, and recognizes the amount of impairment in profit or loss. 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 recognized, are not included in the collective assessment for impairment.

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

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognized directly in capital reserves is removed from capital reserves and recognized 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 amortization) and its current fair value, less any impairment loss previously recognized in profit or loss.

If after an impairment loss has been recognized 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 recognized, the impairment loss is reversed which is recognized in profit or loss. Impairment losses recognized for equity instruments classified as available-for-sale are not reversed through profit or loss. Fair value gains that arise after the impairment are directly recognized in other comprehensive income.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Impairment of financial assets (continued)

Assets carried at cost

If financial assets carried at cost are impaired, the impairment loss are recognized 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 is also calculated in accordance with the aforementioned principle.

Derecognition of financial assets

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

When the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, it may either derecognize the financial asset and recognize any associated assets and liabilities if control of the financial asset has not been retained; or recognizes the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes an associated liability if control has been retained.

10. Accounts Receivable

The Group reviews the carrying value of its account receivables at the end of each reporting period and recognizes provision for impairment, being the difference between the asset's carrying amount and the present value of estimated future cash flows, in the current profit or loss if there is objective evidence of impairment.

The Company conducts impairment tests in respect of its account receivables, whether significant or insignificant, and makes provision for impairment when there is objective evidence of impairment. Objective evidence for impairment includes: (1) significant financial difficulties experienced by the debtor; (2) default on or non-payment of due interest or principal payments; (3) concessions made to the insolvent debtor by creditors owing to economic or legal considerations; (4) probable bankruptcy or other financial reorganisation of the debtor; (5) inability to recover the debt after repayments from the bankruptcy assets or the estate upon the bankruptcy or death of the debtor.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

10. Accounts Receivable (continued)

Individually insignificant accounts, for which there is no objective evidence under individual impairment tests warranting individual provision, are divided into different asset groups based on their credit risk characteristics, and each group is assessed in accordance with different policies to determine their impairment provision. The management divides trade receivables (other than those in respect of which individual asset impairment provision has been made) into the following asset groups as follows on the basis of credit risk rating and historical repayment records:

	Percentage of provision (%)
0–6 months	—
7–12 months	0–15
13–18 months	5–60
19–24 months	15–85
2–3 years	50–100
Over 3 years	100

11. Inventories

Inventories include raw materials, materials sub-contracted for processing, work-in-progress, finished goods, materials for construction-in-progress and product deliveries.

Inventories are initially recorded at costs. Inventories' costs include purchasing costs, processing costs and other costs. Actual costs of goods delivered are recognized using the weighted moving average method. Materials for construction-in-progress include low-value consumables and packaging materials, which are amortised using the separate amortization method/one-off write-off 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 realizable value. Provision for impairment of inventories is made and recognized as expenses when the net realizable 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 realizable value of the inventories is higher than cost, provision should be reversed within the impaired cost, and recognized in profit or loss.

Net realizable 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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

12. Long-term equity investments

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

Long-term equity investments were recorded at initial investment cost on acquisition. The initial investment cost of long-term equity investments derived from business combination through the merger of companies under the common control is measured as the share of the carrying value of the owner's equity of the acquiree. The initial investment cost of long-term equity investments derived from business combination through the merger of companies not under the common control is measured at the acquisition costs. The initial investment cost of long-term equity investments acquired other than through business combination is determined in the following manner: where the acquisition is made by cash payment, the initial investment cost is measured at the actual cash payment plus expenses directly related to the acquisition of the long-term investment, tax and other necessary expenses. Where equity securities are issued as consideration, the initial investment cost is measured at the fair value of the equity securities. Where the acquisition is funded by investors, the initial investment cost is measured at the value stipulated in the investment contract or agreement, unless the value so agreed is deemed unfair.

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

When the cost method is used, long-term equity investments are measured at initial cost on acquisition. Other than prices actually paid upon the acquisition or cash dividends or profit included in the consideration which have been declared but not yet paid, cash dividends or profit declared by the invested enterprise are recognized as investment income for the current period. Impairment of long-term investments is considered in accordance with relevant asset impairment policies.

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. Joint control means sharing control over certain economic activities pursuant to contractual agreements and exists only if significant financial and operational decisions relating to such economic activities require unanimous approval of investing parties sharing such control. Significant control means having the authority to take part in the decision over the financial and operational policies but not the authority to control or jointly control with other parties the formulation of such policies.

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

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

12. Long-term equity investments (continued)

Under the equity method, after the long-term equity investments are acquired, investment gains or losses are recognized and the carrying amount of the long-term equity investment is adjusted to reflect the Group's share of the investee's net profit or loss. When recognizing the Group's share of the net profit or loss of the invested entity, 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 wholly recognized). When the invested enterprise declares profit appropriations or cash dividends, the carrying amount of investment is adjusted down by the Group's share of the profit appropriations and dividends. The Group shall discontinue recognizing 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 Group's net investment in the investee are reduced to zero, except to the extent that the Group has incurred obligations to assume additional losses. The Group also adjusts the carrying amount of long-term equity investments for other changes in owner's equity of the investees (other than net profits or losses), and includes the corresponding adjustment in equity. Upon the disposal of such investment, it will be transferred to profit and loss for the current period on a proportionate basis.

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

For details of impairment test methods and impairment provision methods for long-term equity investments in subsidiaries, jointly-controlled entities and associates, please refer to Note II.23. For details of impairment test methods and impairment provision methods for other long-term equity investments not quoted in an active market and whose fair value cannot be reliably measured, please refer to Note II.9.

13. Fixed assets

Fixed assets are tangible assets held for manufacturing of goods, rendering of services, rental or administrative purposes that are used for more than one accounting year.

A fixed asset is recognized 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 recognized in the carrying amount of the fixed asset if the above recognition criteria are met, and the book value of the replaced part is derecognized; otherwise, those expenditures are recognized in profit or loss as incurred.

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

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13. Fixed assets (continued)

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

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

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

For details of impairment test methods and impairment provision methods for fixed assets, please refer to Note II.23.

14. Construction in progress

Construction-in-progress is measured at the actual construction expenditures, including the necessary costs incurred for fixed assets before they can be put into use and other related fees.

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

For details of impairment test methods and impairment provision methods for construction in progress, please refer to Note II.23.

15. Borrowing costs

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

Borrowing costs directly attributable to the acquisition or construction of assets qualified for capitalization, 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 capitalized as part of the cost of those assets. Other borrowing costs are charged to current profit or loss.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

15. Borrowing costs (continued)

Capitalization of borrowing costs begins where:

(1) Capital expenditure has already happened;

(2) Borrowing expenses has already incurred;

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

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

During capitalization, interest of each accounting period is recognized using the following methods:

(1) Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings.

(2) Where funds are part of a general pool, the eligible amount is determined by applying a capitalization rate to the expenditure on that asset. The capitalization rate will be the weighted average of the borrowing costs applicable to the general pool.

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

16. Intangible assets

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

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

Useful life of respective intangible assets is as follows:

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

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

16. Intangible assets (continued)

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

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

The Group classifies the expenses 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 demonstration that the product derived from the intangible asset or the intangible asset itself will be marketable or, in the case of internal use, the usefulness of the intangible asset as such), the availability of technical and financial resources to complete the project and procure the use or sale of the 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.

For details of impairment test methods and impairment provision methods for intangible assets, please refer to Note II.23.

17. Provisions

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

(1) the obligation is a present obligation of the Group;

(2) the obligation would probably result in an outflow of economic resources from the Group;

(3) the obligation could be reliably measured.

Provisions are initially valued according to the best estimate of expenses on fulfilling the current liabilities, in connection with the risk, uncertainty and timing value of the currency. The book value of the provisions would be reassessed on every balance sheet date. The book value will be adjusted to the best estimated value if there is certain evidence that the current book value is not the best estimate.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

18. Share-based payments

Share-based payments can be distinguished into equity-settled share-based payments and cash-settled share-based payments. Equity-settled share-based payments are transactions of the Group settled through the payment of shares of other equity instruments in consideration for receiving services.

Equity-settled share-based payments made in exchange for services rendered by employees are measured at the fair value of equity instruments granted to employees. Instruments which are vested immediately upon the grant are charged to relevant costs or expenses at the fair value on the date of grant and the capital reserve is credited accordingly. Instruments of which vesting is conditional upon completion of services or fulfillment of performance conditions are measured by recognizing services rendered during the period in relevant costs or expenses and crediting the capital reserve accordingly at the fair value on the date of grant according to the best estimates conducted by the Group at each balance sheet date during the pending period based on subsequent information such as latest updates on the change in the number of entitled employees and whether performance conditions have been fulfilled, and etc. The fair value of equity instruments is determined using the Black-Scholes option pricing model. For details see Note VII. Share-based payment.

The cost of equity-settled transactions is recognised, together with a corresponding increase in capital reserve, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognised for awards that do not ultimately vest, except where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other non-market conditions are satisfied.

Where the terms of an equity-settled share-based payment are modified, as a minimum, services obtained are recognized as if the terms had not been modified. In addition, an expense is recognized for any modification which increases the total fair value of the instrument granted, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. Where employees or other parties are permitted to choose to fulfill non-vesting conditions but have not fulfilled during the pending period, equity-settled share-based payments are deemed cancelled. 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 new awards are treated as if they were a modification of the original award.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

19. Revenue

Revenue is recognized 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 recognized on the following bases:

Revenue from the sales of goods

Revenue from sales of goods is recognized 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 sales of goods is determined according to amounts stipulated in contracts or agreements received or receivable from buyers, unless such amounts are deemed unfair. The receipt of amounts stipulated in contracts or agreements is recognized on a deferred basis. Those with a financing nature are measured at the fair value of amounts stipulated in contracts or agreements.

Revenue from the rendering of services

On the balance sheet date, when transaction result of the rendering of services could be measured reliably, related revenue from rendering of services is recognized according to the percentage of completion, otherwise revenue is recognized only to the extent of cost incurred and expected to be recoverable. The transaction result of the rendering 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 flow 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 contract costs. Total revenue for the rendering of services is determined according to amounts stipulated in contracts or agreements received or receivable by workers, unless such amounts are deemed unfair.

Where the sales of goods and rendering of services are included in contracts or agreements between the Group and other enterprises, revenue is separately recognized according to the fair values of various sales items in the contracts, by reference to the aforesaid principles for revenue recognition.

Construction contracts

Construction contract revenue and cost are recognised by percentage of completion at the balance sheet date where the results of the contract could be reliably estimated, otherwise revenue is recognised on the basis of the actual contract cost amount which has been incurred and is expected to be recoverable. The results of the contract can be reliably estimated if it is probable that economic benefits relating to the contract will flow to the Group and the actually incurred contract cost can be clearly distinguished and reliably measured. For contracts with fixed prices, the following conditions should also be met: the total revenue of the contract can be reliably measured, and percentage of completion and outstanding cost for completion can be reliably estimated. The percentage of completion is based on the percentage of costs incurred to date on a contract relative to the estimated total contract costs. Total contract revenue includes initial income stipulated by the contract and income derived from contract modifications, compensation and rewards, and etc.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

19. Revenue (continued)

Interest income

Interest income is determined by the length of time for which the Group's cash is in use by other parties and the effective interest rate.

20. Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. The grant is measured as the amount received or receivable where it takes the form of a cash asset, or at fair value where it is not a cash asset. Where the fair value cannot be reliably obtained, it should be measured at the nominal value. Government grants, relating to income and applied towards reimbursement of related costs or losses in subsequent periods, are recognized as deferred income and taken to current profit or loss for the period in which the related costs are recognized. Government grants, applied towards reimbursement of related costs or losses already incurred, are directly recognized in current profit or loss. Where the grant relates to an asset, it is recognized as a deferred income and allocated to the income statement over the expected useful life of the relevant asset by equal annual instalments. Where the grant is measured at nominal value, it is directly recognized in current profit or loss.

21. Income tax

Income taxes include current and deferred tax. Income taxes are recognized in current period's profit or loss as income tax expense or income tax benefit, except for the adjustment made for goodwill in a business combination and income tax from transactions or items that directly related to equity.

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 recognizes deferred tax assets and liabilities 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 on the balance sheet date. Temporary differences also include the differences between the book values and tax bases of items not recognized as assets or liabilities where the tax base can be calculated according to the relevant tax regulations.

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

(1) Where the deferred tax liability arises from goodwill or 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) In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

21. Income tax (continued)

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

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

(2) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized 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 utilized.

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

22. Leases

Other than leases under which substantially all risks and rewards of ownership are transferred, which are classified as finance lease, all leases are classified as operating leases.

As lessee of operating leases

Rental expenses under operating leases are recognized as relevant asset costs or in current profit or loss on the straight-line basis over the lease term. Contingent rental is charged to current profit or loss when incurred.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Impairment of assets

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

The Group assesses at each balance sheet date whether there is an indication that a non-financial 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. Intangible assets which are not yet ready for use are also tested annually for 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 recognized in the current period's profit or loss and provision for impairment is made accordingly.

In connection with impairment tests for goodwill, the carrying value of goodwill arising from business combination is allocated to relevant cash generating units ("CGU") from the date of acquisition on a reasonable basis. If it is difficult to allocate such goodwill to a relevant CGU, it should be allocated to a relevant CGU group. A relevant CGU or CGU group is defined as one which can benefit from the synergies of the business combination and is not larger than the reporting segments determined by the Group.

In connection with impairment tests for CGUs or CGU groups that comprise goodwill, where indications of impairment exists in a CGU or CGU group related to goodwill, impairment tests should be performed first on CGUs or CGU groups that do not comprise goodwill and recognize impairment loss after estimating the recoverable amount. Then impairment tests on CGUs or CGU groups that comprise goodwill should be performed and the carrying value and recoverable amount should be compared. Where the recoverable amount is lower than the carrying value, the impairment loss should first be offset against the carrying value of the goodwill allocated to CGUs or CGU groups and then against assets in the CGUs or CGU groups other than goodwill in proportion to the weighting of these assets.

Previously recognised impairment losses are not reversed in subsequent periods.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

24. Employee benefits

Employee benefits represent all kinds of benefits (other than share-based payments) 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 recognized 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 contribution costs are charged as asset cost or to current profit or loss when 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 recognized over the employees' service period by using the projected unit credit method. The Group makes monthly pension payments to eligible retirees. The Group has not held any plan assets since the commencement of the defined benefits pension scheme, therefore it is not required to make any forecast on asset return.

25. Significant accounting judgements and estimates

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

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Significant accounting judgements and estimates (continued)

Judgements

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

Revenue recognition

The Group's material revenue streams are the result of a wide range of activities, from custom design and installation over a period of time to a single delivery of equipment to a customer. The Group's networking solutions also cover a broad range of technologies and are offered on a global basis. As a result, our revenue recognition policies can differ depending on the level of customization 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 contracts. Therefore, management must use significant judgement in determining how to apply the current accounting standards and interpretations, not only based on the networking solutions, but also within networking solutions based on reviewing the level of customization 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 regions 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 items and/or whether delivered elements have standalone value to the customer. Changes to the Group's assessment of the accounting units in an arrangement and/or its ability to establish fair values could significantly change the timing of revenue recognition.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. 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 recognized based on the revenue recognition guidance applicable to the last delivered element. For instance, where post-contract support is the last delivered element within the unit of accounting, the deferred revenue is recognized ratably over the remaining post-contract support term once post-contract support is the only undelivered element.

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

For elements related to customised network solutions and certain network build-outs, revenues are recognized under the ASBE No. 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 recognized 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 recognized, 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 recognized to date on long-term contracts are recorded as advance billings in excess of revenues recognized 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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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. 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 recognized under ASBE No. 14 *Revenue*, revenue is recognized provided that: it is probable that the economic benefits of the income will flow to the Group; the amount can be reliably measured; the Group has transferred the principal risks and rewards of ownership to the buyer and has not retained ongoing management and effective control usually associated with ownership; and relevant costs incurred or to be incurred can be reliably measured.

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

For further information on the Group's revenue recognition policies relating to our material revenue streams, please refer to Note II. 19.

Deferred tax liabilities arising from dividend distribution

The Group is required to recognize deferred tax liabilities for taxable temporary differences relating to investments in certain subsidiaries, unless two conditions are met as follows: the Group is able to control the timing of the reversal of the temporary difference and such temporary difference is not likely to be reversed in the foreseeable future. The Group is of the view that it is able to fully control the timing of the reversal of the temporary difference arising from dividend distribution of the subsidiary and that the subsidiary will not make any profit distribution in the foreseeable future. Therefore, the Group has not recognised any deferred income tax liability. See Note V.16.

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 subsequent financial years, are discussed below.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Impairment of fixed assets, construction in progress and intangible assets

The Group assesses at each balance sheet date whether there is an indication that fixed assets, construction in progress and intangible assets 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. The recoverable amount is measured at the net amount of the fair value of the asset less disposal costs or the present value of the estimated future cash flow of the asset, whichever is higher. This requires an estimate of the expected future cash flows from the asset or the cash-generating unit to which the asset was allocated and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

An impairment loss is recognized when the carrying amount of fixed assets, construction in progress and intangible assets exceeds the recoverable amount. The carrying amount is written down to the recoverable amount and the write-down is charged to current profit or loss, while corresponding provision for asset impairment is also made.

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 recognized 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, an impairment loss may arise.

Equity settled share expense

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

Depreciation and amortization

The Group depreciates items of fixed 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.

Development expenses

In determining the amount of capitalization, the management must make assumptions concerning the expected future cash flow, applicable discount rate and expected beneficial period.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Deferred tax assets

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

III. TAXATION

1. Principal tax items and tax rates

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.
Overseas tax	—	Overseas taxes were payable in accordance with tax laws of various countries and regions.
Enterprise income tax	—	In accordance with the Law on Enterprise Income Tax promulgated on 1 January 2008, enterprise income tax was payable by the Group on its taxable income

Notes to Financial Statements

(Prepared under PRC ASBEs)
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III. TAXATION (CONTINUED)

2. Tax concession and approval documents

The Company is subject to an enterprise income tax rate of 15% for the years from 2008 to 2010 as a national-grade hi-tech enterprise incorporated in Shenzhen Special Economic Zone. Income tax rates for certain domestic subsidiaries of the Group are disclosed as follows:

Xi'an Zhongxingxin Software Company Limited, recognised as a software enterprise in December 2009, 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 years pursuant to Document Cai Shui (2008) No. 1. The current year is its second profitable year.

Nanjing Zhongxing New Software Company Limited, recognised as a software enterprise in December 2009, has been entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Document Cai Shui (2008) No. 1. The current year is its first profitable year.

Shenzhen Zhongxing ICT Company Limited, recognised as a software enterprise in September 2009, 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 years pursuant to Document Shen Guo Shui Nan Jian Mian Bei An (2009) No. 383. The current year is its second profitable year.

Shenzhen Zhongxing Software Company Limited, a national-grade hi-tech enterprise, was an Important Software Enterprise under the National Planning Layout from 2007 to 2009 and is currently applying for the status of Important Software Enterprise under the National Planning Layout in 2010. An Important Software Enterprise under the National Planning Layout is subject to an enterprise income tax rate of 10%.

Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise.

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

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

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

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

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

III. TAXATION (CONTINUED)

2. Tax concession and approval documents (continued)

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

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

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

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

Wuxi Zhongxing Optoelectronics Technologies Company Limited was registered at Wuxi State's High-tech Industrial Development Zone and is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise.

Notes to Financial Statements

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IV. SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENT

1. Subsidiaries

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

Name of subsidiary	Place of registration	Legal representative	Nature of business	Registered capital	Scope of business	Organisation number	Effective capital contribution at year-end	Balance of other items effectively representing net investment	Percentage of shareholding (%) direct	Percentage of shareholding (%) indirect	Percentage of voting rights (%)	Whether statements are consolidated	Minority interests	Set-off of gain/loss attributable to minority interests
Subsidiaries acquired by way of incorporation or investment														
Shenzhen Zhongxing Software Company Limited	Shenzhen	Hou Weigui	Manufacturing	RMB50 million	Software development	75250847-2	RMB49 million	–	73%	25%	98%	Yes	83,011	–
ZTE (H.K.) Limited	Hong Kong	Nil	Information technology	HKD500 million	General services	Nil	HKD500 million	–	100%	–	100%	Yes	–	–
Shenzhen Zhongxing Telecom Technology & Service Company Limited	Shenzhen	Shi Lirong	Telecommunications services	RMB50 million	Communications engineering and technical services	76199710-8	RMB50 million	–	90%	10%	100%	Yes	2,505	–
ZTE Kangxun Telecom Company Limited	Shenzhen	Zhang Taifeng	Telecommunications and related equipment manufacturing	RMB50 million	Production of electronic products and accessories	279285671	RMB45 million	–	90%	–	90%	Yes	192,579	–
ZTE Telecom India Private Limited	India	Huang Dabin	Telecommunications and related equipment manufacturing	INR1,250 million	Production of telecommunication products and services	Nil	USD28.80 million	RMB391.54 million	100%	–	100%	Yes	–	–
ZTEsoft Technology Company Limited	Nanjing	Chen Jie	Manufacturing	RMB200 million	Systems project outsourcing	74537900-0	RMB45.04 million	–	76%	–	76%	Yes	148,818	–
Shenzhen Changfei Investment Company Limited	Shenzhen	Pang Ran	Investment	RMB30 million	Industrial investment	75860475-6	RMB15.30 million	–	51%	–	51%	Yes	163,887	–
Shenzhen Zhongxing Mobile Technology Company Limited	Shenzhen	He Shiyou	Telecommunications and related equipment manufacturing	RMB39,583,000	Production and sales of telecommunications products	73205874-2	RMB31.67 million	–	80%	–	80%	Yes	76,388	–
Wuxi Zhongxing Optoelectronics Technologies Company Limited	Wuxi	Li Su	Telecommunications and related equipment manufacturing	RMB10 million	Development and sales of opto electronic products	71869554-2	RMB6.50 million	–	65%	–	65%	Yes	49,735	–
Anhui Wantong Postal and Telecom Company Limited	Hefei	Zeng Xuezhong	Telecommunications and related equipment manufacturing	RMB31.10 million	Manufacturing and sales of telecommunications wires	14897470-9	RMB15.70 million	–	51%	–	51%	Yes	34,089	–
ZTE Integration Telecom Limited	Shenzhen	Zhao Xianming	Telecommunications and related equipment manufacturing	RMB55 million	R&D and sales of digital integrated system products	74886449-0	RMB44 million	–	75%	5%	80%	Yes	11,349	–
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited	Shanghai	Zeng Xuezhong	Telecommunications services	RMB10 million	Production and sales of telecommunications products	76223980-0	RMB5.10 million	–	51%	–	51%	Yes	29,530	–
Xi'an Zhongxing Software Company Limited	Xi'an	Hou Weigui	Telecommunications and related equipment manufacturing	RMB600 million	Software development for telecommunications services	68385252-7	RMB600 million	–	100%	–	100%	Yes	–	–
ZTE (Hangzhou) Company Limited	Hangzhou	He Shiyou	Telecommunications and related equipment manufacturing	RMB100 million	Telecommunications and related equipment manufacturing	68908984-1	RMB100 million	–	100%	–	100%	Yes	–	–
Shenzhen Zhongxing ICT Company Limited	Shenzhen	Tian Wenguo	Telecommunications and related equipment manufacturing	RMB30 million	Design and sales of corporate management hard/software products	68537795-0	RMB24 million	–	80%	–	80%	Yes	21,162	–

Notes to Financial Statements

(Prepared under PRC ASBEs)
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IV. SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

2. Changes in the scope of consolidation

Subsidiaries established during the six months ended 30 June 2010 included: tier-two subsidiaries 惠州市長飛投資有限公司, 鄭州中興通訊技術有限責任公司, ZTE COOPERATIEF UA and ZTE (UGANDA) LIMITED; and tier-three subsidiaries 三河中興軟件有限責任公司, ZTE BELGIUM and ZTE Austria GmbH.

Other than the aforesaid, newly established subsidiaries, the scope of consolidation was consistent with that of the previous year.

3. Exchange rates for major accounting items of the Group's overseas operating entities

	Average rate		Closing rate	
	Six months ended 30 June 2010	2009	**30 June 2010**	31 December 2009
USD	**6.8272**	6.8314	**6.7909**	6.8282
EUR	**9.2655**	9.5399	**8.2710**	9.7971
HKD	**0.8786**	0.8813	**0.8724**	0.8805
GBP	**10.5163**	10.6955	**10.2135**	10.9780
INR	**0.1489**	0.1417	**0.1460**	0.1456
BRL	**3.8044**	3.3890	**3.7577**	3.9032
PKR	**0.0809**	0.0843	**0.0797**	0.0811
IDR	**0.0007**	0.0006	**0.0007**	0.0007

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash on hand and at bank

		30 June 2010			31 December 2009		
		Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
Cash	RMB	**415**	**1.0000**	**415**	308	1.0000	308
	USD	**1,393**	**6.7909**	**9,460**	980	6.8282	6,692
	SAR	**549**	**1.8133**	**996**	671	1.8200	1,221
	EUR	**214**	**8.2710**	**1,770**	27	9.7971	265
	MRO	**13,961**	**0.0248**	**346**	8,922	0.0254	227
	DZD	**4,069**	**0.0929**	**378**	2,210	0.0918	203
	INR	**1,541**	**0.1460**	**225**	1,504	0.1456	219
	THB	**385**	**0.2103**	**81**	226	0.2041	46
	HKD	**73**	**0.8724**	**64**	19	0.8805	17
	Others			**185**			1,990
	Sub-total			**13,920**			11,188

Notes to Financial Statements

(Prepared under PRC ASBEs)
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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Cash on hand and at bank (continued)

		30 June 2010			31 December 2009		
		Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Bank deposit	RMB	6,633,072	1.0000	6,633,072	5,692,778	1.0000	5,692,778
	USD	410,700	6.7909	2,789,023	835,116	6.8282	5,702,339
	HKD	68,006	0.8724	59,328	71,479	0.8805	62,937
	BRL	52,870	3.7577	198,670	59,475	3.9032	232,143
	PKR	560,740	0.0797	44,691	772,855	0.0811	62,679
	EGP	21,534	1.2020	25,884	26,700	1.2370	33,028
	IDR	288,134,286	0.0007	201,694	196,945,894	0.0007	137,862
	EUR	180,672	8.2710	1,494,338	129,183	9.7971	1,265,619
	DZD	307,933	0.0929	28,607	1,012,570	0.0918	92,954
	MYR	15,805	2.0847	32,949	7,828	1.9939	15,608
	VEF	72,664	1.5793	114,758	93,734	3.1759	297,690
	ETB	45,599	0.5019	22,886	117,649	0.5295	62,295
	INR	528,438	0.1460	77,152	855,127	0.1456	124,506
	CAD	25,561	6.5695	167,923	1,782	6.5068	11,595
	SAR	29,938	1.8133	54,287	2,168	1.8200	3,946
	GBP	5,114	10.2135	52,232	1,673	10.9780	18,366
	THB	143,329	0.2103	30,142	100,897	0.2041	20,593
	RUR	129,816	0.2177	28,261	92,715	0.2258	20,935
	Others			215,719			206,761
	Sub-total			12,271,616			14,064,634

		30 June 2010			31 December 2009		
		Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Other cash	RMB	129,763	1.0000	129,763	165,444	1.0000	165,444
	USD	18,956	6.7909	128,728	36,013	6.8282	245,905
	Others			1,769			9,637
	Sub-total			260,260			420,986
	Total			12,545,796			14,496,808

Notes to Financial Statements

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Cash on hand and at bank (continued)

As at 30 June 2010, the Group's cash subject to ownership restriction amounted to RMB260,260,000 (31 December 2009: RMB420,986,000), including acceptance bill deposits of RMB107,568,000 (31 December 2009: RMB11,867,000), letter of credit deposits of RMB342,000 (31 December 2009: RMB163,214,000), guarantee letter deposits of RMB26,251,000 (31 December 2009: nil) and risk compensation fund to be released within one year of RMB126,099,000 (31 December 2009: RMB245,905,000).

Under the loan agreements or factored trade receivables agreements between the Group and certain domestic banks, provisions are being made for a risk compensation fund at a mutually determined percentage based on the risk profile of the facilities concerned. The risk compensation fund shall be released on a pro-rata basis in respect of the facilities if there is no overdue principal or interest payment at the agreed final payment date, or when the principal and interest of the banking facilities have been fully settled. As at 30 June 2010, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB983,011,000 (31 December 2009: RMB854,264,000). Risk compensation fund to be released within one year amounting to RMB126,099,000 was accounted for as cash subject to ownership restriction. Risk compensation fund to be released after one year amounting to RMB856,912,000 was accounted for as other non-current assets.

As at 30 June 2010, the Group's overseas currency deposits amounted to RMB1,899,868,000 (31 December 2009: RMB2,165,395,000).

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

2. Derivative financial assets

	30 June 2010	31 December 2009
Fixed-income derivatives	**77,776**	—

The management was of the view that there were no significant restrictions to the realisation of the investment in such derivative financial assets.

Notes to Financial Statements

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Bills receivable

	30 June 2010	31 December 2009
Commercial acceptance bills	**1,211,713**	448,090
Bank acceptance bills	**1,147,081**	331,022
	2,358,794	779,112

As at 30 June 2010, bills with a carrying value of RMB292,702,000 were discounted for short-term loans, representing bills receivables pledged by Shenzhen Xingfei Technology Company Limited and Shenzhen Ruide Electronic Industrial Company Limited for bank loans (31 December 2009: Nil).

As at 30 June 2010, there were no amounts due from shareholders holding 5% or more in the voting shares or related parties (31 December 2009: RMB850,000). Please refer to Note VI. "The relationships and transactions with related parties".

4. Trade receivables

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

	30 June 2010			31 December 2009		
	Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
RMB	**7,581,417**	**1.0000**	**7,581,417**	7,028,076	1.0000	7,028,076
USD	**753,179**	**6.7909**	**5,114,763**	771,881	6.8282	5,270,558
EUR	**116,690**	**8.2710**	**965,143**	114,092	9.7971	1,117,770
PKR	**1,482,011**	**0.0797**	**118,116**	1,461,344	0.0811	118,515
INR	**5,988,187**	**0.1460**	**874,275**	6,274,615	0.1456	913,584
Others			**1,825,054**			870,712
			16,478,768			15,319,215

Notes to Financial Statements

(Prepared under PRC ASBEs)
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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Trade receivables (continued)

Aging analysis of trade receivables was as follows:

	30 June 2010	31 December 2009
Within 1 year	**15,848,926**	15,048,672
1 to 2 years	**1,537,290**	1,124,356
2 to 3 years	**605,277**	558,473
Over 3 years	**485,439**	330,491
	18,476,932	17,061,992
Less: bad debt provisions for trade receivables	**1,998,164**	1,742,777
	16,478,768	15,319,215

	30 June 2010				31 December 2009			
	Book balance		**Bad debt**		Book balance		Bad debt	
	Amount	**Percentage (%)**	**Amount**	**Percentage of charge (%)**	Amount	Percentage (%)	Amount	Percentage of charge (%)
Individually significant	**6,969,673**	**38**	**1,303,105**	**19**	6,750,067	40	985,333	15
Individually insignificant but significant as group of similar credit risk characteristics	**11,507,259**	**62**	**695,059**	**6**	10,311,925	60	757,444	7
	18,476,932	**100**	**1,998,164**		17,061,992	100	1,742,777	

Please refer to Note V.17 for details of movements in bad debt provision for trade receivables for the period.

As at 30 June 2010, bad debt provisions for trade receivables which were individually significant or which were not individually significant but were nevertheless individually tested were as follows:

	Book balance	**Bad debt**	**Percentage of charge**	**Reason**
Overseas carriers 1	245,292	245,292	100%	Aging receivables, recovery unlikely
Overseas carriers 2	200,198	200,198	100%	Aging receivables, recovery unlikely
Overseas carriers 3	81,389	81,389	100%	Aging receivables, recovery unlikely
Others	13,516	13,516	100%	
	540,395	540,395		

Notes to Financial Statements

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Trade receivables (continued)

As at 31 December 2009, bad debt provisions for trade receivables which were individually significant or which were not individually significant but were nevertheless individually tested were as follows:

	Book balance	Bad debt	Percentage of charge	Reason
Overseas carriers 1	245,292	245,292	100%	Aging receivables, recovery unlikely
Overseas carriers 2	200,198	200,198	100%	Aging receivables, recovery unlikely
Overseas carriers 3	81,389	81,389	100%	Aging receivables, recovery unlikely
Others	55,393	55,393	100%	
	582,272	582,272		

	30 June 2010	31 December 2009
Total trade receivables from top five accounts	7,801,829	7,473,418
As a percentage of total trade receivables	42.22%	43.80%

The above trade receivables from top five accounts represent amounts receivable from third-party customers of the Group which had been overdue for 0 to 36 months.

As at 30 June 2010, trade receivables included amounts due from shareholders holding 5% or more in the voting shares or related parties amounting to RMB19,840,000 (31 December 2009: RMB13,385,000), accounting for 0.11% (31 December 2009: 0.08%) of the total amount of trade receivables. Please refer to Note VI. "The relationships and transactions with related parties". No bad debt provision was being made in respect of the aforesaid due from shareholders holding 5% or more in the voting shares or related parties.

Transfer of trade receivables that did not qualify for derecognition was separately classified as "Factored trade receivables" and "Bank advances on factored trade receivables" amounting to RMB2,887,541,000 (31 December 2009: RMB2,870,221,000)

As at 30 June 2010, trade receivables of the Group with a book value of RMB6,000,000 (31 December 2009: RMB114,678,000) were subject to ownership restriction as they were pledged as security for short-term loans.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Other receivables

Aging analysis of other receivables was as follows:

	30 June 2010	31 December 2009
Within 1 year	**1,104,463**	793,213
1 to 2 years	**169,958**	200,422
2 to 3 years	**33,260**	61,830
Over 3 years	**12,716**	4,364
	1,320,397	1,059,829
Less: Bad debt provision for other receivables	**—**	—
	1,320,397	1,059,829

	30 June 2010	31 December 2009
Total other receivables from top five accounts	**71,232**	69,118
As a percentage of total amounts of other receivables	**5.39%**	6.52%

The above other receivables from top five accounts represent other receivables from third-party entities independent from the Group which had been overdue for 0 to 36 months.

As at 30 June 2010, there were no (31 December 2009: RMB8,607,000) other receivables in the balance from shareholders or related parties holding 5% or more in the voting shares.

6. Prepayments

Aging analysis of prepayments was as follows:

	30 June 2010		31 December 2009	
	Book balance	Percentage (%)	Book balance	Percentage (%)
Within 1 year	**459,159**	**100%**	355,422	100%

	30 June 2010	31 December 2009
Total prepayments from top five accounts	**57,062**	78,056
As a percentage of total amounts of prepayments	**12.43%**	21.96%

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(Prepared under PRC ASBEs)
Currency: RMB'000

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Prepayments (continued)

As at 30 June 2010, RMB521,000 (31 December 2009: RMB157,000) in the balance was prepayments made to shareholders or related parties holding 5% or more in the voting shares. Please refer to Note VI. "The relationships and transactions with related parties".

7. Inventories

	30 June 2010			31 December 2009		
	Book balance	**Provision for impairment**	**Carrying value**	Book balance	Provision for impairment	Carrying value
Raw materials	**3,952,792**	**216,345**	**3,736,447**	2,819,361	286,356	2,533,005
Materials under sub-contract processing	**110,966**	**7,937**	**103,029**	78,003	8,177	69,826
Work-in-progress	**1,571,828**	**18,993**	**1,552,835**	1,200,003	18,628	1,181,375
Finished goods	**1,842,904**	**137,802**	**1,705,102**	1,977,595	177,648	1,799,947
Dispatch of goods	**4,514,156**	**265,765**	**4,248,391**	4,001,837	261,190	3,740,647
	11,992,646	**646,842**	**11,345,804**	10,076,799	751,999	9,324,800

Please refer to Note V.17 for details of movements in the provision for impairment of inventory during the period.

8. Amount due from/to customers for contract works

	30 June 2010	31 December 2009
Amount due from customers for contract works	**11,237,486**	11,388,496
Amount due to customers for contract works	**(2,751,409)**	(2,519,706)
	8,486,077	8,868,790
Contract costs incurred plus recognized profits less recognized profit (losses) to date	**41,990,915**	45,189,806
Less: estimated loss	**414,489**	625,992
progress billings	**33,090,349**	35,695,024
	8,486,077	8,868,790

Where estimated total contract costs exceed estimated total contract revenue, provision for estimated losses on the contract measured at the difference between the amount in excess and recognized losses on the contract should be made and charged to current profit or loss.

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(Prepared under PRC ASBEs)
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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Available-for-sale financial assets

	30 June 2010	31 December 2009
Available-for-sale equity instruments	**257,908**	253,760

	Opening balance	Increase during the period	Decrease during the period	Closing balance
深圳市創新投資集團有限公司	6,250	—	—	6,250
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 Limited	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	400	—	—	400
航天科技投資控股有限公司	201,734	—	—	201,734
網經科技(開曼)有限公司	3,430	—	(37)	3,393
VENE ZOLANA TELECOMMUNICATION E.S.C.A	2,520	—	(20)	2,500
The PTIC-ZTE Telecom Technology Joint Stock Company	1,162	—	(9)	1,153
Shenzhen Hongde Battery Company Limited	—	4,214	—	4,214
	253,760	4,214	(66)	257,908

10. Long-term receivables

	30 June 2010	31 December 2009
Installment payments for the provision of telecommunication system construction projects	**1,054,345**	495,919
Less: Bad debt provision for long-term receivables	**103,990**	112,170
	950,355	383,749

Please refer to Note V.17 for details of movements in bad debt provision for long-term receivables.

Transfer of trade receivables not qualified for derecognition is separately reflected in "factored long-term trade receivables" and "Bank advances on factored long-term trade receivables". The amount was RMB3,320,883,000 (31 December 2009: RMB2,968,629,000).

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(Prepared under PRC ASBEs)
Currency: RMB'000

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Investments in jointly-controlled entities and associates

30 June 2010

	Type of enterprise	Place of registration	Legal representative	Nature of business	Registered capital
Jointly-controlled entities					
Bestel Communications Ltd	Company with limited liability	Republic of Cyprus	Wei Zaisheng	Information technology	CYP600,000
Associates					
KAZNURTEL Limited Liability Company	Company with limited liability	Kazakhstan	Khairushev Askar	Manufacturing of computers and related equipment	USD3,000,000
ZTE Software Technology (Nanchang) Company Limited	Company with limited liability	China	Hong Bo	Computer application services	RMB15,000,000
Nationz Technologies Inc.	Company limited by shares	China	Liu Jinping	Manufacturing of computers and related equipment	RMB108,800,000
Zhongxing Energy Company Limited	Company with limited liability	China	Hou Weigui	Energy	RMB1,290,000,000
思卓中興(杭州)科技有限公司	Company with limited liability	China	David Khidasheli	Sales and R&D of communications equipment	USD1,000,000
Wuxi Kaier Technology Company Limited	Company with limited liability	China	Li Su	Machinery equipment	RMB11,332,729
Shenzhen Weigao Semiconductor Company Limited	Company with limited liability	China	Leng Qiming	Machinery equipment	RMB10,000,000
Shenzhen Zhongxing Xinyu FPC Company Limited	Company with limited liability	China	Zhang Taifeng	Machinery equipment	RMB11,000,000
Shenzhen Smart Electronics Company Limited	Company with limited liability	China	Chai Zhiqiang	Machinery equipment	HKD30,000,000
深圳市聚飛光電股份有限公司	Company limited by shares	China	Xing Qibin	Machinery equipment	RMB59,540,000
深圳市鼎力網絡有限公司	Company with limited liability	China	Zhu Weimin	Manufacturing of communications-related equipment	RMB10,000,000
Shenzhen Fudekang Electronics Company Limited	Company with limited liability	China	Wang Honghai	Wholesaling of machinery and electronic equipment	RMB6,000,000
Shenzhen Decang Technology Company Limited	Company with limited liability	China	Wu Jun	Machinery equipment	RMB2,500,000
WANAAG COMMUNICATIONS LIMITED	Company with limited liability	Hong Kong	Zhou Susu	Communications services	USD100,000
北京中鼎盛安科技有限公司	Company with limited liability	China	Li Weixing	Computer application services	RMB4,000,000
上海泰捷通信技術有限公司	Company with limited liability	China	Wang Jianrong	Communications products and related services	RMB10,000,000
上海中興群力信息科技有限公司	Company with limited liability	China	Yang Ming	Manufacturing of computers and related equipment	RMB5,000,000
南京鼎力網絡有限公司	Company with limited liability	China	Zhu Weimin	Manufacturing of communications-related equipment	RMB500,000

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(Prepared under PRC ASBEs)
Currency: RMB'000

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Investments in jointly-controlled entities and associates (continued)

30 June 2010 (continued)

	Total assets Closing balance	Total liabilities Closing balance	Total net assets Closing balance	Operating revenue Amount for the period	Net profit Amount for the period
Jointly-controlled entities					
Bestel Communications Ltd	4,606	96	4,510	—	—
Associates					
KAZNURTEL Limited Liability Company (Kazakhstan)	7,164	2,109	5,055	—	—
ZTE Software Technology (Nanchang) Company Limited	20,910	82,267	(61,357)	12,874	572
Nationz Technologies Inc.	2,743,013	115,295	2,627,718	384,001	105,620
Zhongxing Energy Company Limited	1,170,893	4,112	1,166,781	779	(34,330)
思卓中興(杭州)科技有限公司	5,313	4	5,309	—	(447)
Wuxi Kaier Technology Company Limited	114,847	82,343	32,504	94,537	603
Shenzhen Weigao Semiconductor Company Limited	53,956	42,960	10,996	94,882	5,851
Shenzhen Zhongxing Xinyu FPC Company Limited	138,343	93,917	44,426	60,053	7,460
Shenzhen Smart Electronics Company Limited	66,549	36,714	29,835	40,790	(619)
深圳市聚飛光電股份有限公司	239,840	87,861	151,979	133,750	33,310
深圳市鼎力網絡有限公司	5,766	207	5,559	532	(836)
Shenzhen Fudekang Electronics Company Limited	39,996	24,462	15,534	6,345	562
Shenzhen Decang Technology Company Limited	151,576	94,599	56,977	91,865	(3,742)
WANAAG COMMUNICATIONS LIMITED	—	—	—	1,089	979
北京中鼎盛安科技有限公司	1,620	32	1,588	—	(678)
上海泰捷通信技術有限公司	34,124	24,061	10,063	19,345	(3)
上海中興群力信息科技有限公司	4,940	—	4,940	—	(55)
南京鼎力網絡有限公司	1,070	569	501	—	—

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(Prepared under PRC ASBEs)
Currency: RMB'000

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Investments in jointly-controlled entities and associates (continued)

31 December 2009

	Type of enterprise	Place of registration	Legal representative	Nature of business	Registered capital
Jointly-controlled entities					
Bestel Communications Ltd	Company with limited liability	Republic of Cyprus	Wei Zaisheng	Information technology	CYP600,000
Associates					
Shenzhen Fudekang Electronics Company Limited	Company with limited liability	China	Wang Honghai	Wholesaling of mechanical and electronic equipment	RMB6,000,000
Nationz Technologies Inc.	Company limited by shares	China	Liu Jinping	Manufacturing of computers and related equipment	RMB81,600,000
KAZNURTEL Limited Liability Company	Company with limited liability	Kazakhstan	Khairushev Askar	Manufacturing of computers and related equipment	USD3,000,000
Wuxi Kaier Technology Company Limited	Company with limited liability	China	Li Su	Machinery equipment	RMB11,332,729
Shenzhen Zhongxing Xinyu FPC Company Limited	Company with limited liability	China	Zhang Taifeng	Machinery equipment	RMB11,000,000
Shenzhen Weigao Semiconductor Company Limited	Company with limited liability	China	Leng Qiming	Machinery equipment	RMB10,000,000
Shenzhen Decang Technology Company Limited	Company with limited liability	China	Wu Jun	Machinery equipment	RMB2,500,000
深圳市聚飛光電股份有限公司	Company with limited liability	China	Xing Qibin	Machinery equipment	RMB 20,000,000
ZTE Software Technology (Nanchang) Company Limited	Company with limited liability	China	Hong Bo	Computer application services	RMB15,000,000
Shenzhen Smart Electronics Company Limited	Company with limited liability	China	Chai Zhiqiang	Machinery equipment	HKD30,000,000
深圳市鼎力網絡有限公司	Company with limited liability	China	Zhu Weimin	Manufacturing of communications-related equipment	RMB10,000,000
WANAAG Communications Limited	Company with limited liability	Hong Kong	Zhou Susu	Communications services	USD100,000
Zhongxing Energy Company Limited	Company with limited liability	China	Hou Weigui	Energy	RMB1,290,000,000
思卓中興(杭州)科技有限公司	Company with limited liability	China	David Khidasheli	Sales and R&D of communications equipment	USD1,000,000
北京中鼎盛安科技有限公司	Company with limited liability	China	Li Weixing	Computer application services	RMB1,000,000
上海中興群力信息科技有限公司	Company with limited liability	China	Yang Ming	Sales and R&D of communications equipment	RMB5,000,000
Shenzhen Hongde Battery Company Limited	Company with limited liability	China	Hua Wei	Manufacturing of communications-related equipment	RMB15,000,000
上海泰捷通信技術有限公司	Company with limited liability	China	Wang Jianrong	Communications products and related services	RMB10,000,000

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(Prepared under PRC ASBEs)
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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Investments in jointly-controlled entities and associates (continued)

31 December 2009 (continued)

	Total assets Closing balance	Total liabilities Closing balance	Total net assets Closing balance	Operating revenue Amount for the period	Net profit Amount for the period
Jointly-controlled entities					
Bestel Communications Ltd	4,606	96	4,510	—	—
Associates					
Shenzhen Fudekang Electronics Company Limited	35,454	27,239	8,215	55,659	2,851
Nationz Technologies Inc.	341,407	119,556	221,851	465,848	116,944
KAZNURTEL Limited Liability Company	7,164	2,109	5,055	—	—
Wuxi Kaier Technology Company Limited	103,212	71,312	31,900	185,499	4,813
Shenzhen Zhongxing Xinyu FPC Company Limited	105,240	72,097	33,143	109,464	6,275
Shenzhen Weigao Semiconductor Company Limited	19,540	14,395	5,145	33,021	273
Shenzhen Decang Technology Company Limited	161,771	101,051	60,720	223,588	10,783
深圳市聚飛光電股份有限公司	196,622	68,524	128,098	179,236	46,267
ZTE Software Technology (Nanchang) Company Limited	34,477	96,406	(61,929)	8,035	(51,614)
Shenzhen Smart Electronics Company Limited	40,717	10,263	30,454	97,651	(9,572)
深圳市鼎力網絡有限公司	6,956	563	6,393	1,678	(2,055)
WANAAG Communications Limited	1,151	2,130	(979)	—	(267)
Zhongxing Energy Company Limited	1,204,213	3,102	1,201,111	9	(65,548)
思卓中興(杭州)科技有限公司	5,734	1	5,733	—	(925)
北京中鼎盛安科技有限公司	326	1,060	(734)	—	(895)
上海中興群力信息科技有限公司	5,009	15	4,994	—	(5)
Shenzhen Hongde Battery Company Limited	93,479	66,410	27,069	108,174	12,070
上海泰捷通信技術有限公司	27,510	17,429	10,081	7,869	81

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(Prepared under PRC ASBEs)
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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Long-term equity investments

		30 June 2010	31 December 2009
Under equity method			
Jointly-controlled entities	(1)	**2,255**	2,255
Associates	(2)	**899,772**	438,027
		902,027	440,282

30 June 2010

(1) Jointly-controlled entities

	Initial investment	Opening balance	Increase/ decrease during the period	Closing balance	Shareholding Percentage (%)	Percentage of voting rights (%)	Cash dividend for the period
Bestel Communications Ltd.	2,050	2,255	—	2,255	50%	50%	—
		2,255	—	2,255			—

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Long-term equity investments (continued)

30 June 2010 (continued)

(2) Associates

	Initial investment	Opening balance	Increase/ decrease during the period	Closing balance	Shareholding Percentage (%)	Percentage of voting rights (%)	Cash dividend for the period
Shenzhen Zhongxing Xinyu FPC Company Limited	2,500	7,531	1,697	9,228	22.73%	22.73%	—
Shenzhen Fudekang Electronics Company Limited	1,800	2,464	169	2,633	30.00%	30.00%	—
Nationz Technologies Inc.	30,000	61,128	464,416	525,544	20.00%	20.00%	—
KAZNURTEL Limited Liability Co	1,012	2,477	—	2,477	49.00%	49.00%	—
Wuxi Kaier Technology Company Limited	3,500	10,601	187	10,788	30.88%	30.88%	—
Shenzhen Weigao Semiconductor Company Limited	4,000	2,058	2,340	4,398	40.00%	40.00%	—
Shenzhen Decang Technology Company Limited	1,000	18,216	(1,123)	17,093	30.00%	30.00%	—
深圳市聚飛光電股份有限公司	4,500	27,694	7,203	34,897	21.62%	21.62%	—
Shenzhen Smart Electronics Company Limited	3,335	9,136	(185)	8,951	30.00%	30.00%	—
深圳市鼎力網絡有限公司	3,500	2,077	(133)	1,944	35.00%	35.00%	—
WANAAG Communications Limited	351	139	(138)	1	45.00%	45.00%	—
北京中鼎盛安科技有限公司	490	—	778	778	49.00%	49.00%	—
思卓中興(杭州)科技有限公司	3,380	2,804	(220)	2,584	49.00%	49.00%	—
Shenzhen Hongde Battery Company Limited	3,000	5,414	(5,414)	—	6.00%	6.00%	1,200
上海泰捷通信技術有限公司	4,000	4,033	—	4,033	40.00%	40.00%	—
上海中興群力信息科技有限公司	2,000	1,998	(22)	1,976	40.00%	40.00%	—
Zhongxing Energy Company Limited	60,000	280,257	(7,985)	272,272	23.26%	23.26%	—
南京鼎力網絡有限公司	175	—	175	175	35.00%	35.00%	—
ZTE Software Technology (Nanchang) Company Limited	4,500	—	—	—	30.00%	30.00%	—
		438,027	461,745	899,772			1,200

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(Prepared under PRC ASBEs)
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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Long-term equity investments (continued)

30 June 2010 (continued)

(2) Associates (continued)

The Group's shareholding percentage in Shenzhen Hongde Battery Company Limited ("Hongde") was reduced from 20% to 6% after its investment in Hongde remained unchanged after Hongde's registered capital had increased by RMB35,000,000 in 2010. Accordingly, Hongde was reclassified as available-for-sale financial assets with an amount of RMB4,214,000. Moreover, the amount of decrease during the period included a cash dividend distribution of RMB1,200,000.

As ZTE Software Technology (Nanchang) Company Limited was not obliged to assume additional losses, the net losses of investees were recognised to the extent of the carrying value of long-term equity investments until the same is reduced to zero. The Group's accumulated unrecognised investment losses for the period amounted to RMB18,407,000 (2009: RMB12,086,000).

The registered capital of 北京中鼎盛安科技有限公司 was increased by RMB3,000,000 in 2010, out of which the Group contributed RMB1,470,000.

Following the listing of Nationz Technologies Inc. on GEM on 29 April 2010 by way of initial public offering, the Company's shareholding percentage in this company was changed to 20% from 26.67%.

31 December 2009

(1) Jointly-controlled entities

	Initial investment	Opening balance	Increase/ decrease during the period	Closing balance	Shareholding Percentage (%)	Percentage of voting rights (%)	Cash dividend for the period
Bestel Communications Ltd.	2,050	2,255	—	2,255	50%	50%	—
		2,255	—	2,255			—

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(Prepared under PRC ASBEs)
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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Long-term equity investments (continued)

31 December 2009 (continued)

(2) Associates

	Initial investment	Opening balance	Increase/ decrease during the period	Closing balance	Shareholding Percentage (%)	Percentage of voting rights (%)	Cash dividend for the period
Shenzhen Fudekang Electronics Company Limited	1,800	3,824	(1,360)	2,464	30%	30%	900
Nationz Technologies Inc.	30,000	27,457	33,671	61,128	26.67%	26.67%	—
KAZNURTEL Limited Liability Company	1,012	2,477	—	2,477	49%	49%	—
Wuxi Kaier Technology Company Limited	3,500	9,115	1,486	10,601	30.88%	30.88%	—
Shenzhen Zhongxing Xinyu FPC Company Limited	2,500	6,074	1,457	7,531	22.73%	22.73%	—
Shenzhen Weigao Semiconductor Company Limited	4,000	1,949	109	2,058	40%	40%	—
Shenzhen Decang Technology Company Limited	1,000	15,428	2,788	18,216	30%	30%	450
深圳市聚飛光電股份有限公司	4,500	15,313	12,381	27,694	22.5%	22.5%	—
ZTE Software Technology (Nanchang) Company Limited	4,500	3,398	(3,398)	—	30%	30%	—
Shenzhen Smart Electronics Company Limited	3,335	14,673	(5,537)	9,136	30%	30%	2,700
深圳市鼎力網絡有限公司	3,500	2,957	(880)	2,077	35%	35%	—
WANAAG Communications Limited	351	139	—	139	45%	45%	—
Zhongxing Energy Company Limited	60,000	55,503	224,754	280,257	23.26%	23.26%	—
思卓中興(杭州)科技有限公司	3,380	3,292	(488)	2,804	49%	49%	—
北京中鼎盛安科技有限公司	490	79	(79)	—	49%	49%	—
Nanchang Xingfei Technology Company Limited	4,500	4,500	(4,500)	—	30%	30%	—
上海中興群力信息科技有限公司	2,000	—	1,998	1,998	40%	40%	—
Shenzhen Hongde Battery Company Limited	3,000	—	5,414	5,414	20%	20%	—
上海泰捷通訊技術有限公司	4,000	—	4,033	4,033	40%	40%	—
		166,178	271,849	438,027			4,050

Notes to Financial Statements

(Prepared under PRC ASBEs)
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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Fixed assets

	Opening balance	Increase during the period	Decrease during the period	Exchange rate adjustment	Closing balance
Cost					
Buildings	2,412,087	215,192	(3,201)	(386)	2,623,692
Electronic equipment	2,493,902	311,706	(160,806)	(3,126)	2,641,676
Machinery equipment	2,357,788	159,702	(31,337)	(5,645)	2,480,508
Vehicles	315,721	27,316	(3,179)	(2,301)	337,557
Other equipment	47,818	68,097	(1,795)	(2,719)	111,401
	7,627,316	782,013	(200,318)	(14,177)	8,194,834
Accumulated depreciation					
Buildings	353,183	21,504	(3,108)	(19)	371,560
Electronic equipment	1,287,715	204,135	(118,419)	(1,501)	1,371,930
Machinery equipment	1,032,327	145,249	(27,492)	(1,999)	1,148,085
Vehicles	124,115	21,796	(2,661)	(1,213)	142,037
Other equipment	28,441	16,963	(1,571)	(1,767)	42,066
	2,825,781	409,647	(153,251)	(6,499)	3,075,678
Net book value					
Buildings	2,058,904	193,688	(93)	(367)	2,252,132
Electronic equipment	1,206,187	107,571	(42,387)	(1,625)	1,269,746
Machinery equipment	1,325,461	14,453	(3,845)	(3,646)	1,332,423
Vehicles	191,606	5,520	(518)	(1,088)	195,520
Other equipment	19,377	51,134	(224)	(952)	69,335
	4,801,535	372,366	(47,067)	(7,678)	5,119,156
Provision for impairment					
Buildings	7,708	—	—	—	7,708
Electronic equipment	77,819	—	—	—	77,819
Machinery equipment	1,475	—	—	—	1,475
Vehicles	—	—	—	—	—
Other equipment	—	—	—	—	—
	87,002	—	—	—	87,002
Carrying value					
Buildings	2,051,196	193,688	(93)	(367)	2,244,424
Electronic equipment	1,128,368	107,571	(42,387)	(1,625)	1,191,927
Machinery equipment	1,323,986	14,453	(3,845)	(3,646)	1,330,948
Vehicles	191,606	5,520	(518)	(1,088)	195,520
Other equipment	19,377	51,134	(224)	(952)	69,335
	4,714,533	372,366	(47,067)	(7,678)	5,032,154

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Fixed assets (continued)

Depreciation for the six months ended 30 June 2010 amounted to RMB409,647,000 (same period of 2009: RMB351,150,000). For the six months ended 30 June 2010, transfer from construction in progress to fixed assets amounted to RMB168,085,000 (same period of 2009: RMB107,203,000) at cost.

As at 30 June 2010, no houses or buildings were pledged as security for the preservation of properties subject to legal proceedings (31 December 2009: Nil). Houses and buildings with a book value of RMB7,409,000 (31 December 2009: RMB7,490,000) were under ownership restriction, comprising houses and buildings of 安徽亞龍股份有限公司 with a book value of RMB4,011,000 pledged by subsidiary Anhui Wantong Posts and Telecommunications Company Limited and houses and buildings with a book value of RMB3,398,000 pledged by subsidiary Xi'an Zhongxing Jing Cheng Communication Company Limited for short-term loans. As at 30 June 2010, machinery and equipment with a book value of RMB403,392,000 (31 December 2009: RMB337,186,000) were pledged by the subsidiary Congo-Chine Telecom S.A.R.L for loans.

As at 30 June 2010, there were no retired fixed assets or idle fixed assets pending disposal (31 December 2009: Nil).

As at 30 June 2010, the Group was in the process of applying for property ownership certificate for buildings in Shenzhen, Nanjing and Shanghai in China with a net book value of approximately RMB1,434,184,000 (31 December 2009: RMB1,442,206,000).

14. Construction in progress

	Budget	Opening balance	Increase during the period	Transfer to fixed assets	Closing balance	Source of funds	Project completion (%)/ progress
Liuxiandong ZTE Industrial Park Phase I	1,000,000	90,820	3,428	27,101	67,147	Internal resources	90.48%
Nanjing R&D Centre	Nil	317,565	105,471	120,700	302,336	Internal resources	
Shanghai R&D Centre Phase II	Nil	63,589	48,682	—	112,271	Internal resources	
Xi'an Technology Park Phase II	Nil	117,420	25,360	11,541	131,239	Internal resources	
Staff quarters	Nil	213,456	358,224	—	571,680	Internal resources	
Sanya R&D Base project	Nil	—	26	—	26	Internal resources	
Equipment installation	Nil	336,218	—	4	336,214	Internal resources	
Others		193,667	—	8,739	184,928	Internal resources	
		1,332,735	541,191	168,085	1,705,841		

As at 30 June 2010, there was no capitalized interest amount in the balance of the construction in progress (31 December 2009: Nil).

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Currency: RMB'000

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Intangible assets

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Cost				
Software	344,339	14,029	(10,468)	347,900
Technology know-how	5,032	1,559	—	6,591
Land use rights	555,335	40,879	—	596,214
Operating concessions	94,504	1,063	—	95,567
	999,210	57,530	(10,468)	1,046,272
Accumulated amortisation				
Software	270,420	10,097	(4,126)	276,391
Technology know-how	2,168	1,666	—	3,834
Land use rights	34,262	5,147	—	39,409
Operating concessions	51,631	1,586	—	53,217
	358,481	18,496	(4,126)	372,851
Net book value				
Software	73,919	3,932	(6,342)	71,509
Technology know-how	2,864	(107)	—	2,757
Land use rights	521,073	35,732	—	556,805
Operating concessions	42,873	(523)	—	42,350
	640,729	39,034	(6,342)	673,421
Provision for impairment				
Software	12,884	—	—	12,884
Technology know-how	—	—	—	—
Land use rights	6,322	—	—	6,322
Operating concessions	7,750	—	—	7,750
	26,956	—	—	26,956
Carrying value				
Software	61,035	3,932	(6,342)	58,625
Technology know-how	2,864	(107)	—	2,757
Land use rights	514,751	35,732	—	550,483
Operating concessions	35,123	(523)	—	34,600
	613,773	39,034	(6,342)	646,465

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(Prepared under PRC ASBEs)
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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Intangible assets (continued)

At 30 June 2010, intangible assets with a book value of RMB2,498,000 were subject to ownership restriction, representing land use rights with a book value of RMB2,498,000 (31 December 2009: RMB4,140,000) owned by 安徽亞龍通信技術有限公司 pledged Anhui Wantong Posts and Telecommunications Company Limited, a subsidiary of the Group as security for bank loans.

As at 30 June 2010, the Group was in the process of obtaining the land use right certificate of land blocks located in Shenzhen and Xi'an in the PRC, with a net carrying value of approximately RMB270,733,000 (31 December 2009: RMB RMB293,917,000).

Development costs are analysed as follows:

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Handsets	167,672	28,064	17,503	178,233
System products	610,703	409,195	55,592	964,306
	778,375	437,259	73,095	1,142,539

For the six months ended 30 June, development costs accounted for 12% of total research and development costs (2009: 6.5%).

16. Deferred tax assets/liabilities

Deferred tax assets and deferred tax liabilities were not presented as a net amount after offsetting.

Deferred tax assets and liabilities recognised:

	30 June 2010	31 December 2009
Deferred tax assets		
Unrealised profits arising on consolidation	**155,619**	135,080
Provision for impairment in inventory	**35,125**	88,284
Foreseeable contract losses	**116,456**	92,439
Provision for warranties and returned goods	**45,010**	29,428
Provision for retirement benefits	**5,626**	5,704
Tax losses	**—**	42,450
Overseas taxes pending deduction	**165,882**	250,533
Others	**778**	—
	524,496	643,918
Deferred tax liabilities		
Capitalisation of research and development costs	**(3,551)**	(3,924)
	(3,551)	(3,924)

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Provision for impairment of assets

	Opening balance	Provision for the period	Decrease during the period: Write-back	Decrease during the period: Write-off	Decrease during the period: Exchange rate difference	Closing balance
Bad debt	1,854,947	280,147	(25,560)	(111)	(7,269)	2,102,154
Including: Trade receivables	1,742,777	280,147	(23,203)	(111)	(1,446)	1,998,164
Long-term receivables	112,170	—	(2,357)	—	(5,823)	103,990
Provision for impairment of inventories	751,999	6,709	(109,207)	(1,035)	(1,624)	646,842
Provision for impairment of fixed assets	87,002	—	—	—	—	87,002
Provision for impairment of intangible assets	26,956	—	—	—	—	26,956
	2,720,904	286,856	(134,767)	(1,146)	(8,893)	2,862,954

The Group determines at the balance sheet whether there is an indication of impairment in trade receivables. Where there is such indication, the Group will estimate its recoverable amount and conduct impairment tests.

Inventory is measured at the lower of cost and net realizable value. Where the cost is higher than the net realisable value, provision for impairment in inventory is recognized in current profit or loss.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Short-term loans

		30 June 2010		31 December 2009		
		Original currency	RMB equivalent	Original currency	RMB equivalent	
Credit loans	RMB	1,042,690	1,042,690	604,000	604,000	
	USD	501,114	3,403,018	457,000	3,120,487	
	INR	397,095	57,967	540,000	78,630	
Guaranteed loans	RMB	23,000	23,000	43,000	43,000	Note 1
Secured loans	RMB	34,977	34,977	12,500	12,500	Note 2
Bill discounted loans	RMB	562,800	562,800	926,208	926,208	Note 3
Pledged loans	RMB	298,702	298,702	—	—	Note 4
	USD	—	—	16,795	114,678	
Others		—	—		7,000	
			5,423,154		4,906,503	

As at 30 June 2010, the annual interest rate of the above loans ranged from 1.26%–11% (31 December 2009: 1.26%–10%).

Note 1: Guaranteed loans of RMB8,000,000 were borrowed by Shenzhen Kangquan Electromechanical Company Limited and guaranteed by Shenzhen Zhongxing WXT Equipment Company Limited; RMB5,000,000 were borrowed by Xi'an Zhongxing Jing Cheng Communication Company Limited and guaranteed by Shenzhen Zhongxing Netview Technology Company Limited (深圳市中興力維技術有限公司); RMB10,000,000 were borrowed by Shenzhen Lead Communications Company Limited and guaranteed by Shenzhen Kangquan Electromechanical Company Limited.

Note 2: Loans of RMB7,500,000 were borrowed by Anhui Wantong Postal and Telecom Company Limited and secured by real estates and land use rights of 安徽亞龍通信技術有限公司 with book values of RMB4,011,000 and RMB2,498,000, respectively. Loans of RMB22,477,000 were borrowed by Nanchang Xingfei and secured by its bank acceptance bills. RMB5,000,000 were borrowed by Xi'an Zhongxing Jing Cheng Communication Company Limited and secured by its office buildings.

Note 3: The loan comprised bank loans of RMB562,800,000 discounted on bill receivables issued by the Group's subsidiaries.

Note 4: Pledged loans of RMB298,702,000 comprised bank loans of Shenzhen Xingfei Technology Company Limited (深圳市興飛科技有限公司) and Shenzhen Ruide Electronic Industrial Company Limited secured by bill receivables and bank loans of Shenzhen Kangquan Electromechanical Company Limited secured by trade receivables.

Notes to Financial Statements

(Prepared under PRC ASBEs)
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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. Bills payable

	30 June 2010	31 December 2009
Commercial acceptance bills	**3,253,677**	3,239,419
Bank acceptance bills	**3,793,780**	5,245,442
	7,047,457	8,484,861

As at 30 June 2010, bills payable included amounts due to shareholders holding 5% or more in the voting shares or related parties amounting to RMB10,288,000 (31 December 2009: 15,407,000). Please refer to Note VI. "The relationships and transactions with related parties".

20. Trade payables

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

As at 30 June 2010, trade payables included amounts due to shareholders holding 5% or more in the voting shares or related parties amounting to RMB162,892,000 (31 December 2009: RMB200,556,000). Please refer to Notes VI "The relationships and transactions with related parties".

21. Advances from customers

	30 June 2010	31 December 2009
Advances from customers for system project work	**2,447,708**	2,021,274
Advances from customers for handsets	**700,667**	316,354
	3,148,375	2,337,628

As at 30 June 2010, advance from customers included amounts due to shareholders holding 5% or more in the voting shares or related parties amounting to RMB8,925,000 (31 December 2009: RMB13,245,000). Please refer to Note VI. "The relationships and transactions with related parties".

Notes to Financial Statements

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. Salary and welfare payables

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Salary, bonus and allowance	1,933,703	4,749,899	(5,655,178)	1,028,424
Staff welfare	32,514	191,903	(197,975)	26,442
Social insurance	14,087	201,593	(206,307)	9,373
Including: Pension insurance	10,759	131,535	(138,008)	4,286
Medical insurance	2,993	52,751	(52,304)	3,440
Unemployment insurance	208	6,167	(6,098)	277
Working injuries insurance	75	8,721	(7,444)	1,352
Maternity Insurance	52	2,419	(2,453)	18
Housing funds	1,970	73,248	(74,746)	472
Labour union fund and employee education fund	416,446	159,618	(82,239)	493,825
	2,398,720	5,376,261	(6,216,445)	1,558,536

23. Tax payable

	30 June 2010	31 December 2009
Value-added tax ("VAT")	**(1,014,832)**	(1,122,542)
Business tax	**75,774**	57,478
Income tax	**561,571**	1,147,347
PRC tax	**167,589**	528,063
Overseas tax	**393,982**	619,284
Individual income tax	**205,832**	62,412
City maintenance and construction tax	**3,463**	8,270
Education surcharge	**8,822**	10,744
Others	**(100,488)**	(85,994)
	(259,858)	77,715

Notes to Financial Statements

(Prepared under PRC ASBEs)
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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Dividend payable

	30 June 2010	31 December 2009
Dividend payable to holders of restricted shares	**991**	74
Dividend payable to minority shareholders	**127,152**	16,892
	128,143	16,966

25. Other payables

	30 June 2010	31 December 2009
Employee subscriptions under the share incentive scheme	**288,305**	447,235
Contributions to staff housing	**630,000**	—
Accruals	**515,521**	653,590
Payables to external parties	**863,769**	612,229
Deposits	**17,037**	297,504
Factored interest payable in relation to the derecognition of trade receivables	**103,522**	73,868
Others	**281,337**	129,051
	2,699,491	2,213,477

As at 30 June 2010, other payables include amounts due to shareholders or related parties holding 5% or more in the voting shares amounting to RMB913,000 (31 December 2009: RMB1,078,000). Please refer to Notes VI. "The relationships and transactions with related parties".

26. Provisions

	Opening balance	Increase during the period	Decrease during the period	Exchange rate difference	Closing balance
Provision for penalties	32,520	—	(738)	(9)	31,773
Provision for returned handsets	54,885	289	(5,875)	—	49,299
Provision for warranties	102,259	30,384	(11,117)	(227)	121,299
	189,664	30,673	(17,730)	(236)	202,371

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(Prepared under PRC ASBEs)
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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

27. Long-term liabilities due within one year

	30 June 2010	31 December 2009
Long-term loans due within one year	3,556,203	1,939,965

Long-term loans due within one year are analysed as follows:

		30 June 2010		31 December 2009		
		Original currency	RMB equivalent	Original currency	RMB equivalent	
Credit loans	RMB	2,399,000	2,399,000	1,000,000	1,000,000	
	USD	70,000	475,363	30,000	204,845	
Guaranteed loans	RMB	6,667	6,667	46,667	46,667	Note 1
Secured loans	RMB	33,333	33,333	—	—	Note 2
	USD	94,500	641,740	100,800	688,283	Note 2
Others			100		170	
			3,556,203		1,939,965	

Note 1: Guaranteed loans comprised a loan guaranteed by the government of Congo (Kinshasa).

Note 2: The loan was guaranteed by the Company's 51% equity interests in Congo-Chine Telecom S.A.R.L ("Congo-Chine"). The loan is also secured by fixed assets purchased by financing from the loan. See Note V.13.

As at 30 June 2010, the top five long-term loans due within one year in terms of amount were as follows:

	Loan Drawdown date	Loan Due date	Currency	Interest rate	30 June 2010		31 December 2009	
				(%)	Foreign currency	RMB equivalent	Foreign currency	RMB equivalent
The Export-Import Bank of China	2008.12.17	2010.12.17	RMB	Approximately 4%	—	800,000	—	800,000
The Export-Import Bank of China	2010.1.29	2011.3.12	RMB	Approximately 4%	—	500,000	—	—
The Export-Import Bank of China	2009.6.12	2011.6.12	RMB	Approximately 4%	—	400,000	—	400,000
China Development Bank	2007.6.30	2011.5.21	USD	Approximately 3%	46,200	313,740	46,200	313,740
The Export-Import Bank of China	2009.4.24	2011.3.12	RMB	Approximately 4%	—	250,000	—	250,000

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

28. Long-term loans

		30 June 2010		31 December 2009		
		Original currency	**RMB equivalent**	Original currency	RMB equivalent	
Credit loans	RMB	**—**	**—**	711,000	711,000	
	USD	**159,680**	**1,084,371**	160,000	1,092,512	
Guaranteed loans	RMB	**234,810**	**234,810**	234,810	234,810	Note 1
Secured loans	USD	**—**	**—**	52,440	358,071	
			1,319,181		2,396,393	

Note 1 Guaranteed loans comprised a loan guaranteed by the government of Congo (Kinshasa).

As at 30 June 2010, the top five long-term loans in terms of amount were as follows:

	Loan Drawdown	Loan Maturity	Type	Interest rate (%)	30 June 2010 Foreign currency	RMB equivalent	31 December 2009 Foreign currency	RMB equivalent
Bank of China	2009.1.20	2012.1.20	USD	Approximately 3%	**50,000**	**339,545**	50,000	339,545
China Development Bank	2009.12.06	2015.12.06	USD	Approximately 3%	**49,680**	**337,372**	49,680	337,372
Bank of China	2009.3.12	2012.3.12	USD	Approximately 3%	**40,000**	**271,636**	40,000	271,636
Bank of China	2010.4.21	2012.4.21	USD	Approximately 3%	**20,000**	**135,818**	—	—
The Export-Import Bank of China	2007.1.23	2012.3.21	RMB	Approximately 4%	**—**	**125,000**	—	125,000

29. Bonds cum warrants

Opening balance	3,632,681
Interest expenses	77,342
Interest payments	(32,000)
Closing balance	3,678,023

On 30 January 2008, the Company issued 40,000,000 bonds cum warrants with a nominal value of RMB100 each and a total amount of RMB4 billion. The bonds and the warrants are listed on the Stock Exchange of Shenzhen. The bonds with warrants are guaranteed by China Development Bank, and are fully redeemable within 5 years from the date of issue. Holders of the bonds have also been issued 1.63 warrants at nil consideration for every bond issued and therefore a total of 65,200,000 warrants have been issued. The warrants are valid for 24 months from the date of listing. Holders of the Warrants are entitled to subscribe for one A Share for every two warrants held at an initial exercise price of RMB78.13 per Share. In the event of any ex-rights or ex-dividend netting of share prices during the effective period for the warrants, the exercise price and exercise ratio of the warrants will be adjusted accordingly.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29. Bonds cum warrants (continued)

As at the close of trading on 12 February 2010, a total of 23,348,590 "ZXC1" Warrants had been exercised, resulting in an increase of 21,523,441 shares in share capital.

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

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

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

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

30. Other non-current liabilities

	30 June 2010	31 December 2009
Long-term financial guarantee contract	**3,689**	3,689
Provision for retirement benefits	**37,508**	38,028
Factored interest payable in relation to the derecognition of trade receivables	**306,281**	255,052
	347,478	296,769

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31. Share capital

		Increase/(decrease) during the period				
	Opening balance	Issue of new shares Note 1, Note 2	Transfer from capital reserve Note 3	Others Note 4	Sub-total	Closing balance
Restricted shares						
Domestic natural person shares	66,899	—	20,873	(25,152)	(4,279)	62,620
Senior management shares	5,559	—	2,297	(967)	1,330	6,889
Total number of restricted shares	72,458	—	23,170	(26,119)	(2,949)	69,509
Unrestricted shares						
RMB Ordinary Shares	1,467,403	21,524	757,522	26,119	805,165	2,272,568
Overseas listed foreign shares	291,475	58,295	174,885	—	233,180	524,655
Total number of unrestricted shares	1,758,878	79,819	932,407	26,119	1,038,345	2,797,223
Total number of shares	1,831,336	79,819	955,577	—	1,035,396	2,866,732

Note 1 On 21 January 2010, the Company completed the placing of new H shares by the Company with the allotment and issue of 58,294,800 new H shares. The change in share capital has been verified by Lixin Dahua Certified Public Accountants, who has furnished a capital verification report Li Xin Da Hua Yan Zi [2010] No. 046.

Note 2 As at the close of trading for "ZXC1" Warrants on 12 February 2010, a total of 23,348,590 "ZXC1" Warrants (representing approximately 35.81% of the number of warrants prior to the exercise) had been exercised and a total of 41,851,410 unexercised Warrants were cancelled. Following the exercise of new warrants, the number of A shares was increased by 21,523,441 shares and the total share capital of the Company was increased from 1,889,631,015 shares before the exercise to 1,911,154,456 shares. The change in share capital has been verified by Lixin Dahua Certified Public Accountants, who has furnished a capital verification report Li Xin Da Hua Yan Zi [2010] No. 027.

Note 3 On 24 June 2010, the Company implemented the 2009 profit distribution and capitalisation of the capital reserve plan: 5 bonus shares for every 10 shares were issued by way of capitalisation of the capital reserve based on the number of shares held by registered shareholders on the record date. The share capital was enlarged by a total of 955,577,228 shares to a total of RMB2,866,731,684. The change in share capital has been verified by Ernst & Yong Hua Ming Shenzhen Branch, who has furnished a verification report An Yong Hua Ming [2010] Yan Zi No. 60438556-H01.

Note 4 As at 12 March 2010, 3,239 Scheme Participants under the First Award had satisfied conditions for the Second Unlocking of Subject Shares under the Phase I Share Incentive Scheme and a total of 26,452,094 A share Subject Shares were unlocked in the Second Unlocking. The unlocking resulted in a change in the internal structure of the share capital, while the number of total share capital remained unchanged. In accordance with relevant domestic regulations, shares held by departed or newly assigned Directors, Supervisors or senior management shall be under lock-up.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

32. Capital reserves

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium (Note 1)	5,368,316	3,481,624	(955,577)	7,894,363
Equity component of bonds cum warrants	580,210	—	—	580,210
Changes in shareholders' equity of investee other than net of gains/losses under equity method and other capital reserves (Note 2)	40,509	443,298	—	483,807
Share-based payment (Note 3)	680,864	79,478	(364,564)	395,778
Capital injection from government	80,000	—	—	80,000
	6,749,899	4,004,400	(1,320,141)	9,434,158

Note 1: On 21 January, the Company completed the placing of new H shares and raised placing proceeds of approximately HK$2,596 million, out of which an amount of RMB2,226,004,000 was credited to the capital reserve — share premium after deducting legal and other fees.

As at the completion of the exercise of "ZXC1" Warrants on 12 February 2010, the capital reserves — share capital premium was increased by RMB890,941,000. On 4 June 2010, the Second Unlocking of the Subject Shares under the First Award that had fulfilled the unlocking conditions was completed. An amount of RMB364,564,000 previously credited to capital reserves — share-based payment was transferred to capital reserves — share premium.

On 24 June 2010, the Company implemented the 2009 profit distribution and capitalisation of the capital reserve plan: 5 bonus shares for every 10 shares were issued. An amount of RMB955,577,000 was deducted from the capital reserve — share premium accordingly.

Note 2: On 26 March 2010, the IPO of Nationz Technologies, an investee of the Company, was approved at the 13th working meeting of 2010 of the GEM Issue Examination Committee of the CSRC. Accordingly, an amount of RMB443,292,000 was recognised in the capital reserves as changes in shareholders' equity of investee other than net of gains/losses under equity method.

Note 3: In 2010, equity-settled share-based payments with a total amount of RMB79,478,000 were recognized as current expenses.

As at 12 March 2010, 3,239 Scheme Participants under the First Award had satisfied conditions for the Second Unlocking of Subject Shares under the Phase I Share Incentive Scheme and a total of 26,452,094 A share Subject Shares were unlocked in the Second Unlocking. The unlocking was completed on 4 June 2010. The corresponding amount of RMB364,564,000 that had previously been recognised in capital reserves — share-based payment was transferred to capital reserves — share premium.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33. Restricted shares remaining in lock-up

A total of 3,239 Scheme Participants under the Phase I Share Incentive Scheme had satisfied conditions for the Second Unlocking of Subject Shares under the Phase I Share Incentive Scheme and a total of 26,452,094 shares were unlocked. In accordance with the Share Incentive Scheme and relevant legal undertakings executed by the Company and the Scheme Participants, such shares are being held under the name of the Scheme Participants, who are not entitled to any cash dividend distribution and voting rights until the unlocking conditions have been fulfilled in respect of such shares. In the event of the departure of Scheme Participants prior to the end of the effective period of the Share Incentive Scheme, whether by resignation or layoff, such Scheme Participants may exercise their rights in the unlocked Subjects Shares as normal in accordance with the provisions of the Share Incentive Scheme, while Subjects Shares remaining in lock-up will not be unlocked but will lapse after the Company refunds the subscription costs that have been paid by such Scheme Participants at their own cost for the subscription of Subject Shares. Accordingly, the amount of RMB290,572,000, being subscription amounts paid by Scheme Participants in relation to the restrictive shares remaining in lock-up, was charged to shareholders' equity as "restricted shares remaining in lock-up" in the balance sheet. For details of the Share Incentive Scheme, please refer to Note VII. Share-based payment.

34. Surplus reserves

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Statutory surplus reserves	1,505,203	—	—	1,505,203

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, until the accumulated statutory surplus reserve has reached 50% of the registered capitals of the Company.

The Company may further allocate to the discretionary surplus reserve after the statutory surplus reserves allocation. The discretionary surplus reserve can be applied towards making up losses of the previous years, or capitalized as the company's share capital.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. Retained profits

	30 June 2010
Retained profits at the beginning of the period	6,853,682
Net profit	877,489
Less: Statutory surplus reserves	—
Proposed final dividend	—
Difference between actual distribution and proposed dividend for the previous year*	7,936
Retained profits at the end of the period	7,723,235

In accordance with the Articles of Association of the Company, profit available for distribution shall be the lower of profit available for distribution as calculated in accordance with PRC ASBEs and that calculated in accordance with HKFRSs.

* As at 8 April 2010, there were 69,737,523 registered Subject Shares under the Share Incentive Scheme remaining in lock-up. In accordance with the provision of the Company's Share Incentive Scheme that Subject Shares remaining in lock-up shall not be entitled to cash distribution and based on assumptions then made, if the Second Unlocking of the Subject Shares under the First Award of the Phase I Share Incentive Scheme ("Second Unlocking") was not completed by the record date for profit distribution, the number of shares entitled to cash distribution under the 2009 profit distribution proposal would be 1,841,416,933 shares, and the amount of proposed cash dividend to be paid on this basis in the 2009 profit distribution plan would be RMB552,425,000. On 4 June 2010, a total of 26,452,094 shares in the Second Unlocking of the Subject Shares under the First Award of the Phase I Share Incentive Scheme, and the number of restricted shares under the Share Incentive Scheme remaining in lock-up was reduced to 43,285,429 shares. On 24 June 2010, a cash dividend payment of RMB3 (including tax) for every 10 shares under the 2009 profit distribution was in respect of 1,867,869,027 shares (total share capital less the number of restricted shares under the Share Incentive Scheme remaining in lock-up), resulting in a total payment of RMB560,361,000. As a result, there was a difference of approximately RMB7,936,000 between the cash dividend amount actually paid in 2010 and the dividend amount proposed in 2009, which was separately presented here.

36. Operating revenue and costs

Operating revenue is analysed as follows:

	Six months ended 30 June 2010	Six months ended 30 June 2009
Revenue	30,547,840	27,611,425
Other income	177,580	96,221
	30,725,420	27,707,646

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36. Operating revenue and costs (continued)

Operating cost is analysed as follows:

	Six months ended 30 June 2010	Six months ended 30 June 2009
Costs of sales	**20,342,160**	18,755,118
Other operating expenses	**104,754**	69,231
	20,446,914	18,824,349

Principal operations by product:

	Six months ended 30 June 2010		Six months ended 30 June 2009	
	Revenue	**Cost**	Revenue	Cost
Networks	**19,000,326**	**11,772,902**	18,796,810	12,419,048
Terminals	**7,790,253**	**6,020,790**	5,575,904	4,071,618
Telecommunications software system, services and other products	**3,757,261**	**2,548,468**	3,238,711	2,264,452
	30,547,840	**20,342,160**	27,611,425	18,755,118

Principal operations by geography:

	Six months ended 30 June 2010		Six months ended 30 June 2009	
	Revenue	**Cost**	Revenue	Cost
The PRC	**15,318,596**	**10,074,780**	14,880,514	9,956,904
Asia (excluding the PRC)	**5,241,223**	**3,924,321**	6,444,420	5,004,852
Africa	**4,456,480**	**2,126,649**	2,485,788	1,180,072
Others	**5,531,541**	**4,216,410**	3,800,703	2,613,290
	30,547,840	**20,342,160**	27,611,425	18,755,118

Sales to the top five customers of the Group generated revenue of RMB14,408,771,000 in the first half of 2010 (first half of 2009: RMB14,881,466,000), accounting for 47.17% (first half of 2009: 53.90%) of the operating revenue of the Group respectively.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

37. Construction contracts

Construction contract works are stated as the sum of accumulated costs and accumulated gross profit (loss) recognized less settled contract amounts and expected losses on contracts. See Note V.8. For the period under review, there was no single contract whose recognized income accounted for more than 10% of the operating revenue.

38. Taxes and surcharges

	Six months ended 30 June 2010	Six months ended 30 June 2009
Business tax	**368,533**	267,473
City maintenance and construction tax	**18,080**	9,039
Education surcharge	**28,589**	12,533
Others	**52,310**	11,000
	467,512	300,045

For business tax rates, please refer to Note III, "Taxation".

39. Gains/(losses) from changes in fair values

	Six months ended 30 June 2010	Six months ended 30 June 2009
Derivative financial instruments	**77,926**	12,648

40. Investment income/(losses)

	Six months ended 30 June 2010	Six months ended 30 June 2009
Long-term equity investment income under equity method	**22,197**	10,460
Long-term equity investment income under cost method	**1,781**	2,100
Investment income/(loss) arising from the disposal of derivative financial instruments	**–**	(10,210)
	23,978	2,350

As at 30 June 2010, the Company was not subject to significant restrictions in remitting its investment income.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41. Finance expenses

	Six months ended 30 June 2010	Six months ended 30 June 2009
Interest expenses	**393,926**	392,152
Less: Interest income	**42,800**	48,998
Loss (gain) on exchange	**271,470**	(128,965)
Cash discounts and interest subsidy	**62,567**	70,451
Bank charges	**55,472**	82,712
	740,635	367,352

42. Asset impairment losses

	Six months ended 30 June 2010	Six months ended 30 June 2009
Bad debt provisions	**254,587**	341,154
Provisions/(reversal) for impairment of inventories	**(102,498)**	104,775
	152,089	445,929

43. Non-operating income/Non-operating expenses

Non-operating income

	Six months ended 30 June 2010	Six months ended 30 June 2009
Refund of VAT on software products (Note 1)	**553,281**	511,557
Government subsidies	**183,067**	89,137
Others (Note 2)	**7,463**	19,459
	743,811	620,153

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 the State Council document entitled "Certain Policies to Encourage the Development of Software Enterprise and the IC Industry" and the approval reply of the state taxation authorities in Shenzhen.

Note 2 Others represent gains from contract penalties and other gains.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43. Non-operating income/Non-operating expenses (continued)

Non-operating income (continued)

Government subsidies included in the profit or loss for the period were set out as follows:

	Six months ended 30 June 2010	Six months ended 30 June 2009
Financial subsidies	**95,031**	47,226
Government appropriations for technology projects	**88,036**	41,911
	183,067	89,137

Non-operating expenses

	Six months ended 30 June 2010	Six months ended 30 June 2009
Compensation	**6,071**	24,341
Loss on disposal of non-current assets	**10,222**	6,598
Others	**8,545**	11,673
	24,838	42,612

44. Income tax

	Six months ended 30 June 2010	Six months ended 30 June 2009
Current income tax	**445,512**	358,037
Deferred income tax	**(45,941)**	(15,580)
	399,571	342,457

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

44. Income tax (continued)

Income tax and total profit reconciled as follows:

	Six months ended 30 June 2010	Six months ended 30 June 2009
Total profit	**1,392,859**	1,211,196
Tax at statutory tax rate (Note 1)	**348,215**	302,799
Effect of different tax rates applicable to certain subsidiaries	**(255,316)**	(121,120)
Profits and losses attributable to jointly-controlled entities and associates	**—**	(1,042)
Income not subject to tax	**(132,419)**	(88,858)
Tax reduction/exemption	**(70,573)**	—
Expenses no deductible for tax	**222,821**	279,276
Adjustments to current taxes of previous periods	**163,984**	—
Utilisation of deductible tax losses from previous years	**(43)**	(40,176)
Unrecognised tax losses	**122,902**	11,578
Tax amounts at the Group's effective tax rates	**399,571**	342,457

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

45. Earnings per share

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

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

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

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

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45. Earnings per share (continued)

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

	Six months ended 30 June 2010	Six months ended 30 June 2009 (Restated)
Earnings		
Net profit attributable to ordinary shareholders of the Company for the period	**877,489**	783,367
Shares		
Weighted average number of ordinary shares of the Company (Note 1)	**2,736,790**	2,619,494
Diluting effect — weighted average number of ordinary shares:		
Restricted Shares under share incentive scheme (Note 2)	**64,928**	70,131
Adjusted weighted average number of ordinary shares of the Company	**2,801,718**	2,689,625

Note 1 Earnings per share for each period set out have been calculated on the basis of the adjusted number of shares as a result of the implementation of the 2009 profit distribution plan. Basic earnings per share for the reporting period was calculated on the basis of the weighted average ordinary share capital representing the total share capital as at the end of the period less 64,928,143 restricted shares remaining in lock-up.

Note 2 As certain Subject Share quotas under the Phase I Share Incentive Scheme of the Company remaining in lock-up gave rise to potentially dilutive ordinary shares of 64,928,143 shares and 46,753,747 shares for the reporting period and the same period of 2009, respectively, diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factors, and diluted earnings per share for the same period of 2009 has been restated to reflect the implementation of the Company's 2009 profit distribution and share capital increase by way of capitalisation of reserves.

46. Other comprehensive income

	Six months ended 30 June 2010	Six months ended 30 June 2009
Differences arising from foreign currency translation	**(135,085)**	(46,371)

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47. Notes to cash flow statement

	Six months ended 30 June 2010	Six months ended 30 June 2009
Cash received in connection with other operating activities:		
Government subsidies	**401,385**	89,137
Interest income	**42,800**	48,998
Cash paid in connection with other operating activities:		
Selling and distribution costs	**2,590,777**	1,896,073
Administrative expenses and research and development costs	**1,032,044**	949,617

48. Supplemental information on cash flow statement

Reconciliation of net profit to cash flows from operating activities:

	Six months ended 30 June 2010	Six months ended 30 June 2009
Net profit	**993,288**	868,739
Add: Provision for impairment of assets	**152,089**	445,929
Depreciation of fixed assets	**409,647**	351,150
Amortisation of intangible assets and deferred development costs	**91,591**	100,878
Amortisation of long-term deferred assets	**4,417**	4,415
Loss on disposal of fixed assets, intangible assets and other long-term assets	**10,222**	6,598
Gain from changes in fair value	**(77,926)**	(12,648)
Finance expenses	**665,396**	263,187
Investment income	**(23,978)**	(2,350)
Increase in deferred tax assets	**119,422**	(12,022)
Decrease in deferred tax liabilities	**(373)**	(3,558)
Increase in inventories	**(1,915,847)**	(2,520,744)
Increase in operating receivables	**(6,207,397)**	(7,570,519)
Increase in operating payables	**2,103,486**	6,943,017
Share incentive scheme costs	**79,478**	177,887
Increase in cash subject to ownership restrictions	**(87,827)**	(215,162)
Net cash flows from operating activities	**(3,684,312)**	(1,175,203)

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48. Supplemental information on cash flow statement (continued)

Cash and cash equivalents:

	Six months ended 30 June 2010	Six months ended 30 June 2009
Cash		
Including: Cash on hand	**13,920**	34,777
Bank deposit readily available	**12,271,616**	12,042,066
Closing balance of cash and cash equivalents	**12,285,536**	12,076,843

VI. THE RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES

1. Controlling shareholder

Name of controlling shareholder	Type of enterprise	Place of registration	Legal representative	Nature of business	Registered capital	Percentage of shareholding (%)	Percentage of voting rights (%)	Organisation number
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Company with limited liability	Shenzhen, Guangdong	Xie Weiliang	Manufacturing	RMB100 million	32.45%	32.45%	19222451-8

In accordance with the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange, the controlling shareholder of the Company is Shenzhen Zhongxingxin Telecommunications Equipment Company Limited.

2. Subsidiaries

Details of the subsidiaries are set out in Note IV. Scope of Consolidation of the Consolidated Financial Statements.

3. Jointly-controlled entities and associates

Details of the jointly-controlled entities and associates are set out in Note V. 11.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

VI. THE RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

4. Other related parties

	Relationship	Organisation number
Shenzhen Zhongxing WXT Equipment Company Limited	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 Company Limited	Company with equity investment from shareholders of the Company's parent company	715233457
Shenzhen Gaodonghua Communication Technology Company Limited	Company with equity investment from shareholders of the Company's parent company	74323392-1
Shenzhen Shenglongfeng Industrial Company Limited	Company with equity investment from shareholders of the Company's parent company	72619249-4
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	Under the same parent company as the Company	75049913-8
Zhongxing Xinzhou Complete Equipment Company Limited	Under the same parent company as the Company	78390928-7
Shenzhen Zhongxing Xinyu FPC Company Limited	Under the same parent company as the Company	75252829-7
Beijing Zhongxing Intelligent Transportation Systems Limited	Senior management of the Company concurrently acting as director of the related party	72260457-8
Mobi Antenna Technologies (Shenzhen) Company Limited	Former Supervisor of the Company concurrently acting as director of the related party	71522427-8
Shenzhen Zhongxing Development Company Limited	Chairman of the Company concurrently acting as chairman of the related party	75048467-3
Chongqing Zhongxing Development Company Limited	Subsidiary of a company whose chairman concurrently acting as Chairman of the Company	76591251-1

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

VI. THE RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties

(1) Sales of goods to related parties:

	Six months ended 30 June 2010		Six months ended 30 June 2009	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Shenzhen Weigao Semiconductor Company Limited	**43,967**	**0.14**	—	—
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**441**	**—**	8	—
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**80**	**—**	329	—
Shenzhen Zhongxing Information Company Limited	**3,620**	**0.01**	4,353	0.02
Beijing Zhongxing Intelligent Transportation Systems Limited	**4,218**	**0.01**	28,919	0.10
Nationz Technologies Inc.	**—**	**—**	28	—
Zhongxing Software Technology (Nanchang) Company Limited	**—**	**—**	411	—
Nanchang Xingfei Technology Company Limited*	**—**	**—**	26,892	0.10
	52,326	**0.16**	60,940	0.22

For the six months ended 30 June 2010, sales to related parties accounted for 0.16% of the Group's total sales. (Six months ended 30 June 2009: 0.22%).

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

VI. THE RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties (continued)

(2) Purchase of goods from related parties:

	Six months ended 30 June 2010		Six months ended 30 June 2009	
	Amount	Percentage (%)	Amount	Percentage (%)
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**155,882**	**0.91**	250,118	1.44
Shenzhen Fudekang Electronics Company Limited	**13,017**	**0.08**	19,751	0.11
Nationz Technologies Inc.	**42,288**	**0.25**	—	—
Wuxi KaiEr Technology Company Limited	**15,578**	**0.09**	20,596	0.12
Shenzhen Weigao Semiconductor Company Limited	**16,326**	**0.10**	4,825	0.03
Shenzhen Decang Technology Company Limited	**24,567**	**0.14**	23,471	0.14
深圳市聚飛光電股份有限公司	**4,421**	**0.03**	5,087	0.03
Shenzhen Smart Electronics Company Limited	**415**	**—**	—	—
Shenzhen Zhongxing Xinyu FPC Company Limited	**7,721**	**0.05**	10,652	0.06
Mobi Antenna Technologies (Shenzhen) Company Limited	**92,394**	**0.54**	177,281	1.02
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**78,010**	**0.46**	111,257	0.64
Zhongxing Xinzhou Complete Equipment Company Limited	**14,105**	**0.08**	5,570	0.03
Shenzhen Zhongxing Information Company Limited	**553**	**—**	7,992	0.05
Shenzhen Shenglongfeng Industrial Company Limited	**6,620**	**0.04**	9,579	0.06
Xi'an Microelectronics Technology Research Institute	**1,939**	**0.01**	3,295	0.02
Zhongxing Software Technology (Nanchang) Company Limited	**—**	**—**	1,609	0.01
Nanchang Xingfei Technology Company Limited*	**—**	**—**	37,515	0.21
Shenzhen Hongde Battery Company Limited**	**1,578**	**0.01**	—	—
	475,414	**2.79**	688,598	3.97

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

VI. THE RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties (continued)

(2) Purchase of goods from related parties: (continued)

For the six months ended 30 June 2010, purchases from related parties accounted for 2.79% of the Group's total purchases (Six months ended 30 June 2009: 3.97%).

* In December 2009, Nanchang Xingfei Technology Company Limited, previously an associated of the Company, became a tier-two subsidiary of the Company.

** Following an increase in capital, Shenzhen Hongde Battery Company Limited, previously an associated of the Company, became available-for-sale financial assets of the Company in June 2010.

(3) Lease of properties from related parties:

Six months ended 30 June 2010

	Name of lessor	Property leased	Starting date	Ending date	Lease cost
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**The Company**	**Office**	**2007/04/18**	**2010/04/17**	**5,555**
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**Chengdu Zhongxing Software Company Limited**	**Office**	**2007/04/18**	**2013/04/17**	**4,350**
Shenzhen Zhongxing Development Company Limited	**The Company**	**Office**	**2007/04/18**	**2013/04/17**	**18,983**
Chongqing Zhongxing Development Company Limited	**The Company**	**Office**	**2008/10/23**	**2011/10/22**	**2,439**

Six months ended 30 June 2009

	Name of lessor	Property leased	Effective date	Expiry date	Lease cost
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	The Company	Office	2007/04/18	2010/04/17	15,303
Shenzhen Zhongxing Development Company Limited	The Company	Office	2007/04/18	2010/04/17	17,324
Chongqing Zhongxing Development Company Limited	The Company	Office	2008/10/23	2011/10/22	2,271

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

VI. THE RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties (continued)

(4) Guarantees for related parties:

Six months ended 30 June 2010

	Guaranteed party	Guarantee amount	Effective date	Expiry date	Completed
Shenzhen Zhongxing WXT Equipment Company Limited	Shenzhen Kangquan Electromechanical Company Limited.	8,000	2009.8.25	2010.8.25	No

(5) Transfer of assets between related parties

	Six months ended 30 June 2010		Six months ended 30 June 2009	
	Amount	Percentage (%)	Amount	Percentage (%)
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	152,900	37.17%	—	—

(6) Other major related transactions

	Six months ended 30 June 2010		Six months ended 30 June 2009	
	Amount	Percentage (%)	Amount	Percentage (%)
Remuneration of key management personnel	3,535	0.07%	3,349	0.08%

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 goods from related parties: Goods were purchased by the Group from related parties at market price during the period.

(iii) Leasing property from related parties: Office space was leased from related parties by the Group during the period and lease costs of RMB31,327,000 (same period of 2009: RMB34,898,000) was recognized in accordance with relevant lease contracts.

(iv) Guarantee for related parties: Shenzhen Zhongxing WXT Equipment Company Limited provided guarantees in respect of loans extended to the Group's subsidiaries Shenzhen Kangquan Electromechanical Company Limited in the amounts of RMB8,000,000 (Six months ended 30 June 2009: Nil).

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

VI. THE RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties (continued)

(6) Other major related transactions (continued)

Notes: (continued)

(v) Transfer of assets between related parties: During the period, the Group purchased properties from Shenzhen Zhongxingxin Telecommunications Equipment Company Limited at an acquisition price of RMB152,900,000 (same period of 2009: nil), which had been determined through mutual consultation taking into account the assessed value of the properties.

6. Balances of amounts due from/to related parties

Item	Name of related parties	30 June 2010	31 December 2009
Bills receivable	Wuxi KaiEr Technology Company Limited	–	850
		–	850
Trade receivables	Nationz Technologies Inc.	31	—
	Zhongxing Software Technology (Nanchang) Company Limited	4	4
	Beijing Zhongxing Intelligent Transportation Systems Limited	14,728	11,609
	Shenzhen Zhongxing Information Company Limited	5,068	1,772
	Xi'an Microelectronics Technology Research Institute	9	—
		19,840	13,385

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VI. THE RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	30 June 2010	31 December 2009
Prepayments	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**483**	119
	Shenzhen Zhongxing Information Company Limited	**38**	38
		521	157
Dividends receivable	Shenzhen Fudekang Electronics Company Limited	**685**	—
	Shenzhen Smart Electronics Company Limited	**300**	—
		985	—
Bills payable	Shenzhen Fudekang Electronics Company Limited	**827**	625
	Wuxi KaiEr Technology Company Limited	**3,603**	4,684
	Shenzhen Weigao Semiconductor Company Limited	**2,345**	378
	Shenzhen Decang Technology Company Limited	**2,723**	4,691
	Shenzhen Smart Electronics Company Limited	**200**	348
	Shenzhen Hongde Battery Company Limited**	**—**	3,157
	Shenzhen Zhongxing Xinyu FPC Company Limited	**189**	1,139
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**401**	369
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**—**	16
		10,288	15,407
Trade payables	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**58,150**	85,550
	Shenzhen Fudekang Electronics Company Limited	**4,820**	3,025
	Nationz Technologies Inc.	**17,578**	24,082
	Wuxi KaiEr Technology Company Limited	**3,616**	9,778
	Shenzhen Weigao Semiconductor Company Limited	**3,040**	5,198
	Shenzhen Decang Technology Company Limited	**14,112**	14,436
	深圳市聚飛光電股份有限公司	**896**	295
	Shenzhen Smart Electronics Company Limited	**527**	171
	Zhongxing Software Technology (Nanchang) Company Limited	**12**	12
	Shenzhen Zhongxing Xinyu FPC Company Limited	**1,158**	2,991
	Mobi Antenna Technologies (Shenzhen) Company Limited	**32,069**	45,323
	Beijing Zhongxing Intelligent Transportation Systems Limited	**945**	—
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**16,457**	418
	Shenzhen Hongde Battery Company Limited**	**—**	786

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

VI. THE RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	30 June 2010	31 December 2009
Trade payables	Zhongxing Xinzhou Complete Equipment Company Limited	**3,947**	3,217
	Shenzhen Zhongxing WXT Equipment Company Limited	**478**	478
	Shenzhen Zhongxing Information Company Limited	**2,109**	2,060
	Shenzhen Gaodonghua Communication Technology Company Limited	**176**	176
	Shenzhen Shenglongfeng Industrial Company Limited	**2,250**	2,560
	Xi'an Microelectronics Technology Research Institute	**552**	—
		162,892	200,556
Advanced receipts	Shenzhen Weigao Semiconductor Company Limited	**2,643**	4,644
	Zhongxing Software Technology (Nanchang) Company Limited	**5,851**	7,481
	Beijing Zhongxing Intelligent Transportation Systems Limited	**136**	825
	Shenzhen Zhongxing Information Company Limited	**293**	293
	Xi'an Microelectronics Technology Research Institute	**2**	2
		8,925	13,245
Dividend payable	Shenzhen Zhongxing WXT Equipment Company Limited	**6,848**	—
Other payables	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**308**	308
	深圳市鼎力網絡有限公司	**18**	—
	Zhongxing Software Technology (Nanchang) Company Limited	**312**	362
	Shenzhen Zhongxing WXT Equipment Company Limited	**12**	12
	Shenzhen Zhongxing Information Company Limited	**48**	48
	Shenzhen Zhongxing Development Company Limited	**215**	215
	Shenzhen Zhongxing International Investment Company Limited	**—**	4
	Lishan Microelectronics Corporation	**—**	64
	Jilin Posts and Telecommunications Equipment Company	**—**	65
		913	1,078

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

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

VII. SHARE-BASED PAYMENT

1. Overview

	30 June 2010	31 December 2009
Total amount of employee service in consideration of share-based payment	**1,106,794**	1,106,794

	30 June 2010	31 December 2009
Equity-settled share-based payments are as follows:		
Accumulated amount of equity-settled share-based payments in capital reserves	**395,778**	680,864
Total costs of equity-settled share-based payments recognised for the period	**79,478**	299,594

2. Share incentive scheme

The implementation of the Phase I Share Incentive Scheme (Revised Version dated 5 February 2007) (hereinafter referred to as the "Share Incentive Scheme") commenced upon consideration and approval by shareholders at the first extraordinary general meeting of the Company for 2007 convened on 13 March 2007, after the receipt of a no-comment letter from the China Securities Regulatory Commission. The Company granted 47,980,000 Subject Shares to the Scheme Participants by way of the issue of new shares (A shares), including the grant to 3,435 Scheme Participants of Subject Share quotas with 43,182,000 shares (accounting for 90% of the Subject Share quotas under the Share Incentive Scheme, hereinafter referred to as the "First Award") and the reservation of 4,798,000 Subject Shares accounting for 10% of the Subject Share quotas under the Share Incentive Scheme. At the Twentieth Meeting of the Fourth Session of the Board of Directors held on 25 November 2008, the grant of the full amount of the reserved Subject Share quotas to 794 Scheme Participants (hereinafter referred to as the "Second Award") was considered and approved. The Scheme Participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company and its subsidiaries.

The grant price of the Share Incentive Scheme shall be the closing price of the Company's A shares as quoted on the Shenzhen Stock Exchange on the trading day immediately preceding the date of the Board Meeting at which the Share Incentive Scheme is reviewed. The price of the First Award was RMB30.05 per share. Scheme Participants shall pay the subscription amounts for the Subject Shares on the basis of the purchase of 5.2 Subject Shares for every 10 Subject Shares granted, out of which the subscription amounts for 3.8 Subject Shares shall be funded by Scheme Participants at their own cost and the subscription amounts for 1.4 Subject Shares shall be funded by the conversion of the deferred bonus that Scheme Participants would have received had they participated in the distribution of 2006 deferred bonus, calculated as a percentage of the grant price. The price of the Second Award was RMB21.28 per share. Scheme Participants shall pay the subscription amounts for the Subject Shares on the basis of the purchase of 5.2 Subject Shares for every 10 Subject Shares granted

Notes to Financial Statements

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VII. SHARE-BASED PAYMENT (CONTINUED)

2. Share incentive scheme (continued)

The Share Incentive Scheme shall be valid for 5 years, comprising a lock-up period of 2 years and an unlocking period of 3 years:

(1) The Lock-up Period shall last for a period of two years commencing on the date of approval of the Share Incentive Scheme by shareholders in a general meeting of the Company, during which the Subject Shares granted to Scheme Participants under the Share Incentive Scheme shall be subject to lock-up and shall not be transferable;

(2) The Unlocking Period shall last for three years following expiry of the Lock-up Period, during which Scheme Participants may, subject to unlocking conditions stipulated by the Share Incentive Scheme being satisfied, apply for unlocking in three tranches: the first unlocking period shall be the first year following the expiry of the Lock-up Period and the number of shares to be unlocked shall not exceed 20% of the aggregate number of Subject Shares granted; the second unlocking period shall be the second year following the expiry of the Lock-up Period and the number of shares to be unlocked shall not exceed 35% of the aggregate number of Subject Shares granted; the third unlocking period shall be the third year following the expiry of the Lock-up Period and the number of shares to be unlocked shall represent all outstanding Subject Shares.

The unlocking of Subject Shares shall be conditional upon the simultaneous fulfilment of certain conditions, including but not limited to the following:

(1) The Company's financial and accounting report for the most recent accounting year does not contain an audit report in which the certified public accountants indicate an opinion of disapproval or inability to express any opinion;

(2) The Scheme Participant has not been subject to administrative penalties by the CSRC due to material non-compliance by the Company during the past three years;

(3) The weighted average rates of return on net assets of ZTE for the years 2007, 2008 and 2009 shall be adopted as the results appraisal conditions to Scheme Participants' application for unlocking the Subject Shares in the first, second and third tranches, respectively. Such rates of return on net assets shall not be less than 10% (before or after extraordinary income/loss items, whichever is lower).

In accordance with the relevant terms of the Share Incentive Scheme, Subject Shares granted but which have lapsed in the absence of unlocking shall be repurchased and cancelled by the Company at the corresponding subscription amounts plus interest calculated at the prevailing call deposit interest rate published by the People's Bank of China.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

VII. SHARE-BASED PAYMENT (CONTINUED)

2. Share incentive scheme (continued)

The proposals of profit distribution and capitalisation from capital reserve for 2007 were implemented on 10 July 2008, whereby 4 shares were issued for every 10 shares held. The proposals of profit distribution and capitalisation from capital reserve for 2008 were implemented on 4 June 2009, whereby 3 shares were issued for every 10 shares held. As a result, the Subject Share quotas of the Phase I Share Incentive Scheme were adjusted to 87,323,600 shares accordingly, representing the adjustments of the Subject Share quotas under the First Award and the Second Award to 78,591,240 shares and 8,732,360 shares, respectively. Taking into consideration the departure of or waiver of participation in the Share Incentive Scheme by certain Scheme Participants, it was ratified at the Twenty-sixth Meeting of the Fourth Session of the Board of Directors of the Company held on 6 July 2009 that a total Subject Share quota of 85,050,238 shares had been granted to 4,022 Scheme Participants under the Share Incentive Scheme, and the registration of such shares with China Securities Depository and Clearing Company Limited, Shenzhen Branch was completed. The total number of issued share capital of the Company has increased by 85,006,813 shares, after deducting 43,425 Subject Shares which have lapsed.

In accordance with the Share Incentive Scheme, Subject Shares under the First Award shall be subject to a lock-up period of two years commencing on 13 March 2007 (the date on which the Share Incentive Scheme was approved by the shareholders in a general meeting of the Company). As at 12 March 2009, the lock-up period for Subject Shares under the First Award had expired and the unlocking conditions had been fulfilled. The unlocking of 15,269,290 A shares, being 20% of the Subject Shares under the First Unlocking, was completed on 22 July 2009. After the deduction of 709,582 Subject Shares granted to 19 incumbent directors and senior management staff members of the Company and 1 former senior management staff member who had resigned effective 19 March 2009, which shall remain under lock-up and subject to sale restriction under the relevant regulations of the Company Law and the Guidelines for the Administration of Company Shareholdings by Directors, Supervisors and Senior Management Officers of Companies Listed on the Shenzhen Stock Exchange and Changes in Shareholdings, a total of 14,559,708 Subject Shares under the current unlocking were listed on 23 July 2009. The aforesaid 20% of the share incentive scheme shares granted to 19 incumbent directors and senior management staff members of the Company and 1 former senior management staff member who had resigned, namely the 709,582 shares which had remained in lock-up in accordance with relevant regulations of the Company Law and the Guidelines for the Administration of Company Shareholdings by Directors, Supervisors and Senior Management Officers of Companies Listed on the Shenzhen Stock Exchange and Changes in Shareholdings, were unlocked on 26 February 2010.

At the Fourth Meeting of the Fifth Session of the Board of Directors, it was ratified that 3,239 Scheme Participants under the First Award of the Phase I Share Incentive Scheme had satisfied conditions for the Second Unlocking of Subject Shares under the Phase I Share Incentive Scheme and a total of 26,452,094 unlocked shares were listed on 4 June 2010.

Notes to Financial Statements

(Prepared under PRC ASBEs)
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VIII. CONTINGENT EVENTS

1. In August 2006, a customer instituted arbitration against the Company to demand indemnity from the Company in the amount of PKR762,982,000 (approximately RMB60,810,000). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract to demand for damages. In February 2008, the arbitration authority issued its award ruling that an indemnity of PKR328,040,000 (approximately RMB26,145,000) is to be paid by the Company. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a counter-claim against the customer's breach of contract. Currently the case is pending trial by the Supreme Court and civil court of Islamabad. As at the date of approval of the financial statements, the Group had not made any payments of compensation pursuant to the aforesaid judgement. The legal department of the Company is of the view that it is difficult to predict the final outcome of the case at this stage. The directors are of the opinion that the aforesaid arbitration will not have any material adverse impact on the financial conditions and operating results of the Group. Accordingly, the Company has not made any further provisions.

2. In April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth"), an engineering contractor of the Company, demanded the Company to increase the contract amount on the grounds that raw material prices had increased in connection with which it launched first a slowdown in work, followed later by total suspension. In September 2008, the Company instituted litigation with the Nanshan District People's Court, pleading for the revocation of the contract and court order of the evacuation of the work sites by the defendant, as well as a penalty payment for work delay in the amount of RMB24,912,000 and damages of RMB11,319,000 payable to the Company. The court handed the first trial judgement in July 2009, ruling that the contract between the Company and China Construction Fifth be revoked and a penalty payment for work delay in the amount of RMB12,817,000 be payable by China Construction Fifth. China Construction Fifth had appealed against the said judgement and the second trial is currently in progress. In October and November 2009, the Group further instituted two complaints with the Nanshan District People's Court, demanding China Construction Fifth to undertake a penalty payment for work delay in the amount of RMB30,615,000 and the payment of RMB39,537,000, representing the amount of work payments in excess of the total contract amount. In July 2009, China Construction Fifth instituted a separate litigation with the Shenzhen Intermediate People's Court, demanding the Company to make a payment of RMB75,563,000 for raw materials and staff deployment. The said cases are currently in trial. The directors are of the opinion that the aforesaid arbitration will not have any material adverse impact on the financial conditions and operating results of the Group.

3. As at 30 June 2010, the Group had outstanding guarantees given to banks in respect of performance bonds amounting to RMB8,973,406,000.

4. As at 30 June 2010, the Group provided financial guarantee (including interests accruable) to independent customers for a maximum amount of RMB66,684,000 (31 December 2009: RMB RMB66,796,000). The aforesaid guarantees will expire in September 2018 and December 2013 respectively.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

IX. COMMITMENTS

	30 June 2010	31 December 2009
Capital commitments		
Contracted but not provided for	**1,258,171**	1,240,388
Authorised by the Board but not yet contracted	**5,639,255**	5,833,950
	6,897,426	7,074,338
Investment commitments		
Contracted but performance not completed	**67,557**	18,850

X. OTHER SIGNIFICANT MATTERS

1. Leases

As lessee:

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 2010	31 December 2009
Within one year (including first year)	**168,956**	196,676
In the first to second years (including second year)	**87,628**	93,484
In the second to third years (including third year)	**43,639**	61,630
After the third year	**48,588**	73,864
	348,811	425,654

2. Segment reporting

Operating segments

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(1) The networks (communication system) segment includes wireless communications, wireline switch and access and optical and data communications;

(2) The terminals segment engages in the manufacture and sale of mobile phone handsets and data card products;

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

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

X. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Operating segments (continued)

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that finance expenses, research and development costs, impairment losses, gain/(losses) from changes in fair values, investment income as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, cash, long-term equity investments, other receivables and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, loans, other payables, bonds cum warrants, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at prevailing market prices.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

X. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Operating segments (continued)

Six months ended 30 June 2010

	Network (communications systems)	Terminal products	Telecommunications software systems, services and other products	Total
Segment revenue				
Telecommunications systems contracts	19,000,326	—	2,558,066	21,558,392
Sales of goods and services	—	7,790,253	1,376,775	9,167,028
Sub-total	19,000,326	7,790,253	3,934,841	30,725,420
Segment results	4,464,723	636,737	709,482	5,810,942
Unallocated gains				743,811
Unallocated expenses				(4,521,382)
Finance costs				(740,635)
Gains from changes in the fair value of derivative financial assets				77,926
Gains from investment in jointly-controlled entity				—
Gains from investment in associates				22,197
Total profit				1,392,859
Taxation				(399,571)
Net profit				993,288
30 June 2010				
Total assets				
Segment assets	33,905,260	7,652,818	7,021,553	48,579,631
Unallocated assets				25,477,359
Sub-total				74,056,990
Total liabilities				
Segment liabilities	9,369,579	798,252	1,940,377	12,108,208
Unallocated liabilities				39,984,692
Sub-total				52,092,900
Supplemental information				
Capital expenditure	1,018,958	417,780	211,020	1,647,758
Depreciation and amortisation	312,692	128,206	64,757	505,655
Asset impairment losses	94,051	38,561	19,477	152,089

Notes to Financial Statements

(Prepared under PRC ASBEs)
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X. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Operating segments (continued)

Six months ended 30 June 2009

	Network (communications systems)	Terminal products	Telecommunications software systems, services and other products	Total
Revenue				
External revenue	18,796,810	5,575,904	3,334,932	27,707,646
Sub-total	18,796,810	5,575,904	3,334,932	27,707,646
Segment results	4,018,848	804,536	582,729	5,406,113
Unallocated gains				620,153
Unallocated expenses				(4,470,826)
Finance costs				(367,352)
Gains from changes in the fair value of derivative financial assets				12,648
Gains from investment in jointly-controlled entity				—
Gains from investment in associates				10,460
Total profit				1,211,196
Taxation				(342,457)
Net profit				868,739
31 December 2009				
Total assets				
Segment assets	31,782,376	5,513,601	5,738,245	43,034,222
Unallocated assets				25,308,100
Sub-total				68,342,322
Total liabilities				
Segment liabilities	8,630,920	506,969	1,558,295	10,696,184
Unallocated liabilities				39,697,272
Sub-total				50,393,456
Supplemental information				
Capital expenditure	585,459	145,935	87,054	818,448
Depreciation and amortisation	326,506	81,387	48,550	456,443
Asset impairment losses	304,737	88,360	52,832	445,929

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

X. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Group information

Geographic information

External revenue

	Six months ended 30 June 2010	Six months ended 30 June 2009
The PRC	**15,469,878**	14,950,479
Asia (excluding the PRC)	**5,250,734**	6,450,316
Africa	**4,463,961**	2,497,366
Others	**5,540,847**	3,809,485
	30,725,420	27,707,646

External revenue is analysed by geographic locations where the customers are located.

Total non-current assets

	30 June 2010	31 December 2009
The PRC	**5,892,518**	5,240,077
Asia (excluding the PRC)	**889,551**	749,818
Africa	**1,548,923**	1,317,425
Others	**201,896**	142,402
	8,532,888	7,449,722

Non-current assets are analysed by geographic locations where the assets (excluding financial assets and deferred tax assets) are located.

Information on key customers

Operating revenue of RMB12,638,790,000 (Six months ended June 30, 2009: RMB12,500,420,000) was derived from revenue of telecommunications systems contracts from three key customers.

Notes to Financial Statements

(Prepared under PRC ASBEs)
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X. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis

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

The Group entered into forward currency contracts and aimed at managing the foreign exchange risk in the group operation.

The main risk which comes from the Group's financial instruments is the credit risk, liquidity risk and market risk.

Classification of financial instruments

The book values of various financial instruments as the balance sheet date were as follows:

30 June 2010

Financial assets

	Financial assets dealt with at fair value through current profit or loss	Loans and other receivables	Available-for-sale financial assets	Total
Derivative financial assets	77,776	—	—	77,776
Cash and bank balances	—	12,545,796	—	12,545,796
Available-for-sale financial assets	—	—	257,908	257,908
Bills receivable	—	2,358,794	—	2,358,794
Trade receivables and long-term receivables	—	17,429,123	—	17,429,123
Factored trade receivables and factored long-term receivables	—	6,208,424	—	6,208,424
Other receivables (excluding dividend receivable)	—	1,319,412	—	1,319,412
Other non-current assets	—	856,912	—	856,912
	77,776	40,718,461	257,908	41,054,145

Notes to Financial Statements

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X. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Classification of financial instruments (continued)

30 June 2010 (continued)

Financial liabilities

	Financial liabilities dealt with at fair value Through current profit or loss	Other financial liabilities	Total
Bank loans	–	10,298,538	10,298,538
Bills payable	–	7,047,457	7,047,457
Trade payables	–	14,054,488	14,054,488
Bank advances on factored trade receivables and factored long-term receivables	–	6,208,424	6,208,424
Other payables (excluding accruals)	–	2,183,970	2,183,970
Bonds cum Warrants	–	3,678,023	3,678,023
Factoring costs payable in relation to the derecognition of trade receivables	–	306,281	306,281
Long-term financial guarantee contract	–	3,689	3,689
	–	43,780,870	43,780,870

Notes to Financial Statements

(Prepared under PRC ASBEs)
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X. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Classification of financial instruments (continued)

31 December 2009

Financial assets

	Financial assets dealt with at fair value through current profit or loss	Loans and other receivables	Available-for-sale financial assets	Total
Cash and bank balances	—	14,496,808	—	14,496,808
Available-for-sale financial assets	—	—	253,760	253,760
Bills receivable	—	779,112	—	779,112
Trade receivables and long-term receivables	—	15,702,964	—	15,702,964
Factored trade receivables and factored long-term receivables	—	5,838,850	—	5,838,850
Other receivables (excluding dividend receivable)	—	1,058,244	—	1,058,244
Other non-current assets	—	608,359	—	608,359
	—	38,484,337	253,760	38,738,097

Financial liabilities

	Financial liabilities dealt with at fair value Through current profit or loss	Other financial liabilities	Total
Bank loans	—	9,242,861	9,242,861
Bills payable	—	8,484,861	8,484,861
Trade payables	—	13,046,804	13,046,804
Bank advances on factored trade receivables and factored long-term receivables	—	5,838,850	5,838,850
Other payables (excluding accruals)	—	1,559,887	1,559,887
Bonds cum Warrants	—	3,632,681	3,632,681
Factoring costs payable in relation to the derecognition of trade receivables	—	255,052	255,052
Long-term financial guarantee contract	—	3,689	3,689
	—	42,064,685	42,064,685

Notes to Financial Statements

(Prepared under PRC ASBEs)
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X. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Credit risk

Credit risk is the risk of financial losses arising from default of the counterparty.

The Group only trades with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

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

Although the top five arrears accounted for 42.22% of the total trade receivables, their risk profiles were relatively low and did not give rise to significant concentration of credit risk for the Group.

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

For further quantitative disclosures on the Group's credit risk arising from trade receivables, other receivables and long-term trade receivables, please refer to Notes V.4, 5 and 10.

The maturity profile of trade receivables, other receivables and long-term receivables not deemed to have been impaired as at 30 June was analysed as follows:

30 June 2010

			Overdue for			
	Total	**Not overdue/ not impaired**	**Less than 1 year**	**1–2 years**	**2–3 years**	**Over 3 years**
Trade receivables	**16,478,768**	**2,973,474**	**12,624,314**	**811,987**	**64,950**	**4,043**
Long-term receivables	**950,355**	**950,355**	**—**	**—**	**—**	**—**
Other receivables	**1,320,397**	**—**	**1,104,463**	**169,958**	**33,260**	**12,716**

31 December 2009

			Overdue for			
	Total	Not overdue/ not impaired	Less than 1 year	1–2 years	2–3 years	Over 3 years
Trade receivables	15,319,215	4,583,346	10,307,625	413,242	15,002	—
Long-term receivables	383,749	383,749	—	—	—	—
Other receivables	1,059,829	—	793,213	200,422	61,830	4,364

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

X. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Liquidity risk

Liquidity risk refers to the risk of the lack of funds in performing obligations relating to financial liabilities.

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

The Group's objective is to maintain balance between the continuity and flexibility of financing through the use of bank loans, bonds cum warrants and other interest-bearing loans. With the exception of the non-current portion of bank borrowings, all borrowings are repayable within one year.

The maturity profile of financial assets financial assets and financial liabilities based on undiscounted contract cash flow is summarised as follows:

30 June 2010

Financial assets

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Derivative financial assets	77,776	—	—	—	—	77,776
Cash and bank balances	8,989,593	3,556,203	—	—	—	12,545,796
Available-for-sale financial assets	257,908	—	—	—	—	257,908
Bills receivable	—	2,358,794	—	—	—	2,358,794
Trade receivables and long-term receivables	11,535,138	4,943,630	510,155	245,840	275,474	17,510,237
Factored trade receivables and factored long-term receivables	—	2,887,541	1,193,199	720,528	1,748,752	6,550,020
Other receivables (excluding dividend receivable)	1,319,412	—	—	—	—	1,319,412
Other non-current assets	—	—	84,509	78,875	693,528	856,912
	22,179,827	13,746,168	1,787,863	1,045,243	2,717,754	41,476,855

Financial liabilities

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	—	9,494,157	1,299,360	2,550,819	41,472	13,385,808
Bills payable	—	7,047,457	—	—	—	7,047,457
Trade payables	14,054,488	—	—	—	—	14,054,488
Trade receivables and bank advances on factored long-term receivables	—	3,100,490	1,249,853	730,982	1,809,718	6,891,043
Other payables (excluding prepaid expenses)	1,817,467	—	—	—	—	1,817,467
Bonds cum Warrants	—	32,000	32,000	4,032,000	—	4,096,000
Factoring costs payable in relation to the derecognition of trade receivables	—	—	84,581	72,367	517,099	674,047
Long-term financial guarantee contract	70,485	—	—	—	—	70,485
	15,942,440	19,674,104	2,665,794	7,386,168	2,368,289	48,036,795

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

X. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Liquidity risk (continued)

31 December 2009

Financial assets

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Cash and bank balances	14,075,822	420,986	—	—	—	14,496,808
Available-for-sale financial assets	253,760	—	—	—	—	253,760
Bills receivable	—	779,112	—	—	—	779,112
Trade receivables and long-term receivables	10,735,869	4,583,346	127,464	149,289	144,661	15,740,629
Factored trade receivables and factored long-term receivables	—	2,870,221	1,376,961	420,902	1,457,781	6,125,865
Other receivables (excluding dividend receivable)	1,058,244	—	—	—	—	1,058,244
Other non-current assets	—	—	36,008	71,973	500,378	608,359
	26,123,695	8,653,665	1,540,433	642,164	2,102,820	39,062,777

Financial liabilities

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	—	7,142,977	1,250,739	875,666	366,967	9,636,349
Bills payable	—	8,484,861	—	—	—	8,484,861
Trade payables	13,046,804	—	—	—	—	13,046,804
Trade receivables and bank advances on factored long-term receivables	—	3,070,494	1,412,716	440,090	1,704,547	6,627,847
Other payables (excluding prepaid expenses)	1,486,019	73,868	—	—	—	1,559,887
Bonds cum Warrants	—	32,000	32,000	32,000	4,032,000	4,128,000
Factoring costs payable in relation to the derecognition of trade receivables	—	—	69,981	48,127	228,532	346,640
Long-term financial guarantee contract	70,485	—	—	—	—	70,485
	14,603,308	18,804,200	2,765,436	1,395,883	6,332,046	43,900,873

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

X. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the six months ended 30 June 2010.

The Group monitors capital using a gearing ratio, which is interest-bearing bank borrowings divided by the sum of total equity and interest-bearing bank borrowings. The gearing ratios as at the ends of the reporting periods were as follows:

	30 June 2010 RMB'000	31 December 2009 RMB'000
Interest-bearing bank borrowings	**10,298,538**	9,242,861
Total equity	**21,964,090**	17,948,866
Total equity and interest-bearing bank borrowings	**32,262,628**	27,191,727
Gearing ratio	**32%**	34%

Interest rate risk

Interest rate risk is the risk that the fair value/future cash flow of a financial instrument will fluctuate because of changes in market interest rate. The Group's risk exposure to movements in market interest rates is mainly related to the Group's long-term liability bearing interest at floating rates.

On 30 June 2010, the bank loans of the Group and the Company including fixed rate debts and floating debts based on LIBOR. The Group and the Company had no significant concentration of interest rate risk.

The Group's interest risk policy requires it to manage interest risk by maintaining an appropriate mix of fixed and variable rate instruments. The Group's policy requires it to maintain the fixed interest rate between 1.26% and 11.00%. On 30 June 2010, approximately 39% (2009: 55%) of the Group's interest-bearing borrowings bore interest at fixed rates.

All of the interest-bearing borrowings with floating interest rate are in USD. If the bank loan interest rate and the variable rate generally increase/decrease 0.25%, the Group's total profit and owner's equity will accordingly decrease or increase by RMB12,047,000, respectively, for 2010.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

X. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Foreign currency risk

Foreign currency risk is the risk of volatility in the fair value of financial instruments or future cash flow 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 USD and RMB and certain portion of the bank loans is denominated in USD. The Group tends to avoid foreign currency exchange risk or provide for allocation terms when arriving at purchase and sales contracts to minimize its transactional currency exposures. The Group takes rolling forecast on foreign currency revenue and expenses, matches the currency and amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation.

The following table demonstrates the sensitivity of a reasonably possible change in interest rates may lead to the changes in the Group's profit before tax, with all other variables held constant, as at the balance sheet date.

	Increase/decrease in US dollars exchange rate	Effect on total profit
Six months ended 30 June 2010		
Weaker RMB against USD	**+3%**	**141,831**
Stronger RMB against USD	**–3%**	**(141,831)**
Six months ended 30 June 2009		
Weaker RMB against USD	+3%	(57,405)
Stronger RMB against USD	–3%	57,405

	Increase/decrease in EUR exchange rate	Effect on total profit
Six months ended 30 June 2010		
Weaker RMB against EUR	**+5%**	**121,224**
Stronger RMB against EUR	**–5%**	**(121,224)**
Six months ended 30 June 2009		
Weaker RMB against EUR	+5%	79,103
Stronger RMB against EUR	–5%	(79,103)

Fair value

The fair values of the financial instruments of the Group did not differ significantly from their book values.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

XI. COMPARATIVE DATA

Certain comparative data have been restated to conform with the presentation requirements for the current period.

XII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Trade receivables

	30 June 2010			31 December 2009		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
RMB	7,204,007	1.0000	7,204,007	6,301,758	1.0000	6,301,758
USD	1,707,040	6.7909	11,592,338	1,590,189	6.8282	10,858,129
EUR	262,787	8.2710	2,173,511	222,036	9.7971	2,175,309
Others			733,202			221,935
			21,703,058			19,557,131

Aging analysis of trade receivables:

	30 June 2010	31 December 2009
Within 1 year	16,985,763	15,008,812
1–2 years	3,091,249	3,567,732
2–3 years	1,950,999	1,350,116
Over 3 years	1,266,738	1,015,890
	23,294,749	20,942,550
Less: Bad debt provision for trade receivables	1,591,691	1,385,419
	21,703,058	19,557,131

	30 June 2010				31 December 2009			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Percentage (%)	Amount	Charge ratio (%)	Amount	Percentage (%)	Amount	Charge ratio (%)
Individually significant	12,437,203	53	1,304,839	10	9,882,922	47	906,321	9
Individually insignificant but significant as group of similar credit risk characteristics	10,857,546	47	286,852	3	11,059,628	53	479,098	4
	23,294,749	100	1,591,691		20,942,550	100	1,385,419	

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

XII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

1. Trade receivables (continued)

Movements in provisions for trade receivables:

	Opening balance	Provision for the year	Decrease during the period: Write-back	Write-off	Exchange rate fluctuation	Closing balance
30 June 2010	1,385,419	203,034	—	(111)	3,349	1,591,691
31 December 2009	1,233,215	395,054	—	(242,850)	—	1,385,419

	30 June 2010	31 December 2009
Total trade receivables from top five accounts	**11,624,550**	7,606,385
As a percentage of total trade receivables	**49.90%**	36.32%

As at 30 June 2010, there was no outstanding amount due from shareholders holding 5% or more in the voting shares (31 December 2009: Nil).

Transfer of trade receivables not qualified for derecognition is separately reflected in "factored trade receivables" and "Bank advances on factored trade receivables". The amount was RMB2,563,587,000 (31 December 2009: RMB2,727,445,000).

2. Other receivables

The aging analysis of other receivables is as follows:

	30 June 2010	31 December 2009
Within 1 year	**2,728,349**	2,448,301
1 to 2 years	**106,659**	671,281
2 to 3 years	**11,873**	111,623
Over 3 years	**1,230**	9,162
	2,848,111	3,240,367
Less: Bad debt provision for other receivables	**—**	—
	2,848,111	3,240,367
Total other receivables from top five accounts	**2,606,840**	2,402,956
As a percentage of total amounts of other receivables	**91.53%**	74.16%

As at 30 June 2010, there was no outstanding amount due from shareholders holding 5% or more in the voting shares or related parties (31 December 2009: Nil).

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

XII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

3. Available-for-sale financial assets

	30 June 2010	31 December 2009
Available-for-sale equity instruments	**244,448**	244,448

	Opening balance	**Increase during the period**	**Decrease during the period**	**Closing balance**
深圳市創新投資集團有限公司	6,250	—	—	6,250
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 Limited	1,024	—	—	1,024
貴州艾瑪特信息超市項目開發有限公司	200	—	—	200
航天科技投資控股有限公司	201,734	—	—	201,734
	244,448	—	—	244,448

4. Long-term receivables

	30 June 2010	31 December 2009
Loans granted to subsidiaries (Note 1)	**1,046,633**	1,011,281
Instalment payments for the provision of telecommunication system construction projects	**1,009,640**	410,422
Less: Bad debt provision for long-term receivables	**71,415**	73,771
	1,984,858	1,347,932

Note 1: Loans granted to subsidiaries were interest-free, unsecured and had no fixed term of repayment. The Directors are of the view that the advances were deemed loans similar to equity granted to subsidiaries.

Movements in bad debt provision for long-term receivables during the period are as follows:

			Decrease during the period		
	Opening balance	**Provision for the year**	**Write-back**	**Write-off**	**Closing balance**
30 June 2010	**73,771**	**—**	**(2,356)**	**—**	**71,415**
31 December 2009	136,888	—	(63,117)	—	73,771

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

XII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

4. Long-term receivables (continued)

Transfer of trade receivables not qualified for derecognition was separately classified as "Factored long-term trade receivables" and "Bank advances on factored long-term trade receivables" amounting to RMB3,445,883,000 (31 December 2009: RMB3,093,629,000).

5. Long-term equity investments

		30 June 2010	31 December 2009
Equity method			
Associates	(1)	**804,853**	348,665
Cost method			
Subsidiaries	(2)	**1,987,177**	1,948,720
Less: Provision for impairment in long-term equity investments	(3)	**100,748**	100,748
		2,691,282	2,196,637

30 June 2010

(1) Associates

	Initial investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
Nationz Technologies Inc.	30,000	61,128	464,416	525,544	20.00%	20.00%	–
KAZNURTEL Limited Liability Company	1,012	2,477	–	2,477	49.00%	49.00%	–
思卓中興(杭州)科技有限公司	3,380	2,804	(219)	2,585	49.00%	49.00%	–
上海中興群力信息科技有限公司	2,000	1,998	(23)	1,975	40.00%	40.00%	–
Zhongxing Energy Company Limited	60,000	280,258	(7,986)	272,272	23.26%	23.26%	–
Zhongxing Software Technology (Nanchang) Company Limited	4,500	–	–	–	30.00%	30.00%	–
		348,665	456,188	804,853			–

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

XII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

5. Long-term equity investments (continued)

30 June 2010 (continued)

(2) Subsidiaries

	Initial investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
Shenzhen Zhongxing Software Company Limited	38,609	36,500	–	36,500	98%	98%	–
Shenzhen Changfei Investment Company Limited	15,300	15,300	–	15,300	51%	51%	–
ZTEsoft Technology Company Limited	24,282	45,489	–	45,489	76%	76%	–
Shenzhen Zhongxing Netview Technology Company Limited	6,000	6,000	–	6,000	80%	80%	9,000
Shenzhen Special Equipment Company Limited	540	540	–	540	54%	54%	3,564
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited	5,100	5,100	–	5,100	51%	51%	3,570
Shenzhen ZTE Kangxun Telecom Company Limited	45,000	45,000	–	45,000	90%	90%	540,000
ZTE Microelectronics Technology Company Limited	15,674	–	15,674	15,674	90%	90%	–
Anhui Wantong Postal and Telecom Company Limited	15,698	11,329	–	11,329	51%	51%	–
Wuxi Zhongxing Optoelectronics Technologies Company Limited	3,920	6,500	–	6,500	65%	65%	–
ZTE Integration Telecom Limited	41,250	41,250	–	41,250	80%	80%	–
Shenzhen Zhongxing Mobile Technology Company Limited	45,799	31,666	–	31,666	80%	80%	23,750
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	–	45,000	99%	99%	–
Xi'an Zhongxing Jing Cheng Communication Company Limited	11,391	10,500	–	10,500	70%	70%	–
Guangdong New Pivot Technology & Service Company Limited	13,500	4,500	–	4,500	90%	90%	–
深圳市興意達通訊技術有限公司	5,000	5,000	–	5,000	100%	100%	–
Yangzhou Zhongxing Mobile Telecom Company Limited	3,900	3,900	–	3,900	65%	65%	–
深圳市中聯成電子發展有限公司	600	2,100	–	2,100	100%	100%	–
Xi'an Zhongxingxin Software Company Limited	600,000	600,000	–	600,000	100%	100%	–
Shenzhen Zhongxing ICT Company Limited	24,000	24,000	–	24,000	80%	80%	–
中興通訊(杭州)有限責任公司	100,000	100,000	–	100,000	100%	100%	–

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

XII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

5. Long-term equity investments (continued)

30 June 2010 (continued)

(2) Subsidiaries (continued)

	Initial investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
中興國通通訊裝備技術(北京)有限公司	2,000	2,000	—	2,000	51%	51%	—
深圳市中興和泰酒店投資管理有限公司	30,000	30,000	—	30,000	100%	100%	—
Shenzhen Guoxin Electronics Development Company Limited	9,700	9,700	20,000	29,700	99%	99%	—
PT. ZTE Indonesia	1,654	1,654	—	1,654	100%	100%	—
Congo-Chine Telecom S.A.R.L.	55,800	72,836	—	72,836	51%	51%	—
Telrise (Cayman) Telecom Limite	15,770	21,165	—	21,165	100%	100%	—
Wistron Telecom AB	2,445	114	2,023	2,137	100%	100%	—
ZTE (Malaysia) Corporation SDN. BHD	496	496	—	496	100%	100%	—
ZTE Holdings (Thailand) Co., Ltd	10	5	5	10	100%	100%	—
ZTE (Thailand) Co., Ltd	2,044	5,253	—	5,253	100%	100%	—
ZTE (UK) Ltd.	4,533	4,531	755	5,286	100%	100%	—
ZTE (USA) Inc.	5,381	5,395	—	5,395	100%	100%	—
ZTE Corporation Mexico S. DE R.L DE C.V.	41	41	—	41	100%	100%	—
ZTE Do Brasil LTDA	10,058	18,573	—	18,573	100%	100%	—
ZTE Romania S.R.L	827	827	—	827	100%	100%	—
ZTE Telecom India Private Ltd	196,826	258,361	—	258,361	100%	100%	—
ZTE-Communication Technologie	4,188	6,582	—	6,582	100%	100%	—
Zhongxing Telecom Pakistan (Private) Ltd	2,971	5,279	—	5,279	93%	93%	—
Closed Joint Stock Company TK Mobile	4,258	16,870	—	16,870	51%	51%	—
ZTE (H.K.) Limited	53,200	449,364	—	449,364	100%	100%	—
		1,948,720	38,457	1,987,177			579,884

Notes to Financial Statements

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XII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

5. Long-term equity investments (continued)

30 June 2010 (continued)

(3) Provision for long-term equity investments

	Opening balance	Increase/ decrease during the period	Closing balance
ZTE (USA) Inc.	5,381	–	5,381
Telrise (Cayman) Telecom Ltd.	12,970	–	12,970
Shenzhen Guoxin Electronics Development Company Limited	23,767	–	23,767
Yangzhou Zhongxing Mobile Telecom Company Limited	3,900	–	3,900
Shenzhen Zhongxing Mobile Technology Company Limited	17,657	–	17,657
ZTE (UK) Ltd.	4,533	–	4,533
ZTE Do Brasil LTDA	10,059	–	10,059
ZTE Integration Telecom Limited	4,591	–	4,591
ZTE Wistron Telecom AB	2,030	–	2,030
ZTE Corporation Mexico S. DE R. L DE C.V.	41	–	41
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	–	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656	–	9,656
ZTE Holdings (Thailand) Co., Ltd.	10	–	10
ZTE (Thailand) Co., Ltd.	205	–	205
ZTE Telecom India Private Ltd.	1,654	–	1,654
ZTE Romania S.R.L.	827	–	827
ZTE (Malaysia) Corporation SDN. BHD.	496	–	496
	100,748	–	100,748

Notes to Financial Statements

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XII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

5. Long-term equity investments (continued)

31 December 2009

(1) Associates

	Initial investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
Nationz Technologies Inc.	30,000	27,457	33,671	61,128	26.67%	26.67%	—
KAZNURTEL Limited Liability Company	1,012	2,477	—	2,477	49%	49%	—
Zhongxing Software Technology (Nanchang) Company Limited	4,500	3,398	(3,398)	—	30%	30%	—
Zhongxing Energy Company Limited	60,000	55,503	224,755	280,258	23.26%	23.26%	—
思卓中興(杭州)科技有限公司	3,380	3,292	(488)	2,804	49%	49%	—
上海中興群力信息科技有限公司	2,000	—	1,998	1,998	40%	40%	—
		92,127	256,538	348,665			—

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

XII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

5. Long-term equity investments (continued)

31 December 2009 (continued)

(2) subsidiaries

	Initial investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
Shenzhen ZTE Kangxun Telecom Company Limited	45,000	45,000	—	45,000	90%	90%	—
ZTE (USA) Inc.	5,381	5,381	14	5,395	100%	100%	—
Wuxi Zhongxing Optoelectronics Technologies Company Limited	3,920	3,920	2,580	6,500	65%	65%	2,600
ZTE (HK.) Limited	53,200	449,364	—	449,364	100%	100%	—
Anhui Wantong Postal and Telecom Company Limited	15,698	15,698	(4,369)	11,329	51%	51%	3,172
Telrise (Cayman) Telecom Ltd.	15,770	21,165	—	21,165	100%	100%	—
Shenzhen Guoxin Electronics Development Company Limited	9,700	29,700	(20,000)	9,700	99%	99%	—
Congo-Chine Telecom S.A.R.L	55,800	55,800	17,036	72,836	51%	51%	1,081
Yangzhou Zhongxing Mobile Telecom Company Limited	3,900	3,900	—	3,900	65%	65%	—
Shenzhen Zhongxing Mobile Technology Company Limited	45,799	45,799	(14,133)	31,666	80%	80%	15,833
ZTEsoft Technology Company Limited	24,282	23,982	21,507	45,489	76%	76%	22,800
ZTE (UK) Ltd.	4,533	5,286	(755)	4,531	100%	100%	—
ZTE Do Brasil LTDA	10,058	18,573	—	18,573	100%	100%	—
Shenzhen Zhongxing Software Company Limited	38,609	36,500	—	36,500	98%	98%	—
ZTE Integration Telecom Limited	41,250	41,261	(11)	41,250	80%	80%	—
ZTE Wistron Telecom AB	2,445	3,137	(3,023)	114	100%	100%	—
ZTE-Communication Technologies, Ltd.	4,188	4,188	2,394	6,582	100%	100%	—
ZTE Corporation Mexico S. DE R. L DE C.V.	41	41	—	41	100%	100%	—
Shenzhen Changfei Investment Company Limited	15,300	15,300	—	15,300	51%	51%	3,825
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	2,971	2,308	5,279	93%	93%	—
Guangdong New Pivot Technology & Service Company Limited	13,500	13,500	(9,000)	4,500	90%	90%	—
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	—	45,000	99%	99%	990,000

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

XII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

5. Long-term equity investments (continued)

31 December 2009 (continued)

(2) subsidiaries (continued)

	Initial investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited	5,100	5,100	—	5,100	51%	51%	2,550
ZTE Holdings (Thailand) Co., Ltd.	10	10	(5)	5	100%	100%	—
ZTE (Thailand) Co., Ltd.	2,044	5,040	213	5,253	100%	100%	—
Shenzhen Special Equipment Company Limited	540	540	—	540	54%	54%	2,430
ZTE Telecom India Private Ltd.	196,826	196,826	61,535	258,361	100%	100%	—
ZTE Romania S.R.L.	827	827	—	827	100%	100%	—
ZTE (Malaysia) Corporation SDN.BHD.	496	496	—	496	100%	100%	—
ZiMax (Cayman) Holding Ltd.	45,485	45,485	(45,485)	—	—	—	—
Xi'an Zhongxing Jing Cheng Communication Company Limited	11,396	11,396	(896)	10,500	70%	70%	—
Closed Joint Stock Company TK Mobile	4,258	4,258	12,612	16,870	51%	51%	—
PT. ZTE Indonesia	1,654	1,654	—	1,654	100%	100%	—
Shenzhen Zhongxing Netview Technology Company Limited	6,000	6,000	—	6,000	80%	80%	—
深圳市中聯成電子發展有限公司	600	600	1,500	2,100	100%	100%	—
深圳市興意達通訊技術有限公司	5,000	5,000	—	5,000	100%	100%	—
Xi'an Zhongxingxin Software Company Limited	600,000	600,000	—	600,000	100%	100%	—
中興國通通訊裝備技術(北京)有限公司	2,000	—	2,000	2,000	51%	51%	—
Shenzhen Zhongxing ICT Company Limited	24,000	—	24,000	24,000	80%	80%	—
中興通訊(杭州)有限責任公司	100,000	—	100,000	100,000	100%	100%	—
深圳市中興和泰酒店投資管理有限公司	30,000	—	30,000	30,000	100%	100%	—
		1,768,698	180,022	1,948,720			1,044,291

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

XII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

5. Long-term equity investments (continued)

31 December 2009 (continued)

(3) Provision for long-term equity investments

	Opening balance	Increase/ decrease during the period	Closing balance
ZTE (USA) Inc.	5,381	—	5,381
Telrise (Cayman) Telecom Ltd.	12,970	—	12,970
Shenzhen Guoxin Electronics Development Company Limited	23,767	—	23,767
Yangzhou Zhongxing Mobile Telecom Company Limited	3,900	—	3,900
Shenzhen Zhongxing Mobile Technology Company Limited	17,657	—	17,657
ZTE (UK) Ltd.	4,533	—	4,533
ZTE Do Brasil LTDA	10,059	—	10,059
ZTE Integration Telecom Limited	4,591	—	4,591
ZTE Wistron Telecom AB	2,030	—	2,030
ZTE Corporation Mexico S. DE R. L DE C.V.	41	—	41
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	—	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656	—	9,656
ZTE Holdings (Thailand) Co., Ltd.	10	—	10
ZTE (Thailand) Co., Ltd.	205	—	205
ZTE Telecom India Private Ltd.	1,654	—	1,654
ZTE Romania S.R.L.	827	—	827
ZTE (Malaysia) Corporation SDN. BHD.	496	—	496
ZiMax (Cayman) Holding Ltd.	12,317	(12,317)	—
	113,065	(12,317)	100,748

6. Operating revenue and costs

Operating revenue is analysed as follows:

	Six months ended 30 June 2010	Six months ended 30 June 2009
Revenue	**27,216,781**	25,848,352
Other income	**24,631**	29,320
	27,241,412	25,877,672

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

XII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

6. Operating revenue and costs (continued)

Operating cost is analysed as follows:

	Six months ended 30 June 2010	Six months ended 30 June 2009
Costs of sales	**22,885,313**	21,043,546
Other operating expenses	**1,741**	5,707
	22,887,054	21,049,253

Sales to the previous top five customers of the Group generated revenue of RMB13,793,154,000 in the first half of 2010 (Six months ended 30 June 2009: RMB14,639,489,000), accounting for 50.68% of the Company's revenue from principal operations.

7. Investment income

	Six months ended 30 June 2010	Six months ended 30 June 2009
Investment income from long-term equity investment under equity method	**12,898**	6,952
Investment income from long-term equity investment under cost method	**581,664**	53,841
Investment income from the disposal of derivative financial assets	**—**	(10,210)
	594,562	50,583

In 2010, investment income from long-term equity investments under cost accounting mainly comprised 2010 dividend distribution from Shenzhen ZTE Kangxun Telecom Company Limited amounting to RMB540,000,000.

As at 30 June 2010, the Company was not subject to significant restrictions in remitting its investment income.

XIII. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by way of a resolution of the Board of Directors of the Company on 19 August 2010.

Supplemental Information on the Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

I. RECONCILIATION OF DIFFERENCES BETWEEN PRESENTATIONS UNDER PRC ASBES AND HKFRSS

There was no material difference between the financial statements prepared under PRC ASBEs and the consolidated financial statements prepared under HKFRSs for the reporting period. Ernst & Young is the Company's Hong Kong auditor.

II. RETURN ON NET ASSETS AND EARNINGS PER SHARE

	Weighted average return on net assets (%)	Earnings per share Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	4.41%	0.32	0.31
Net profit attributable to ordinary shareholders of the Company after extraordinary items	3.74%	0.27	0.27

III. ANALYSIS OF MOVEMENTS IN CERTAIN FINANCIAL STATEMENT ITEMS

Balance sheet items	Analysis of reasons
Derivative financial assets	Mainly attributable to gains from the change in fair value of fixed-income derivative investments
Bills receivable	Mainly attributable to more frequent receipts of payments in the form of acceptances
Long-term trade receivables	Mainly attributable to the offering of more favourable payment terms to customers
Long-term equity investments	Mainly reflecting the increase of shareholders' equity in an associate attributable to the Company as a result of proceeds received through the IPO listing of the associate.
Development costs	Mainly attributable to capitalisation of R&D investments in certain communications systems and terminal products
Long-term deferred assets	Mainly attributable to amortisation of long-term deferred assets for the period
Other non-current assets	Mainly reflecting the increase in non-current funds derived from factored trade receivable arrangements
Advanced receipts	Mainly attributable to growth in sales and the increase in prepayments for new contracts
Salary and welfare payable	Mainly reflecting actual payments of staff wages
Tax payable	Mainly reflecting actual payment of enterprise income tax
Dividend payable	Mainly attributable to the increase in dividend payable to minority shareholders following dividend distribution by subsidiaries
Deferred income	Mainly attributable to the increase in government grants
Non-current liabilities due within 1 year	Mainly reflecting the transfer of certain long-term loans to non-current liabilities due within 1 year
Long-term loans	Mainly reflecting the transfer of certain long-term loans to non-current liabilities due within 1 year
Share capital	Mainly reflecting the increase in share capital following the implementation of the 2009 profit distribution, the new H share placing and the exercise of A share warrants.
Capital reserves	Mainly reflecting share premium arising from the new H share placing and the exercise of A share warrants
Restricted shares remaining in lock-up	Mainly reflecting the unlocking of certain Subject Shares under the Phase I Share Incentive Scheme
Proposed final dividend	Mainly attributable to dividend distribution for the period
Foreign currency translation difference	Mainly reflecting the effect of exchange rate fluctuations

Supplemental Information on the Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000

III. ANALYSIS OF MOVEMENTS IN CERTAIN FINANCIAL STATEMENT ITEMS (CONTINUED)

Income statement items	Analysis of reasons
Taxes and surcharges	Mainly attributable to the increase in revenue subject to business tax
Finance costs	Mainly attributable to exchange losses arising from exchange rate fluctuations
Asset impairment losses	Mainly attributable to the decrease in bad debt provision and the write-back of provision for impairment of certain inventories
Gains/losses from change in fair values	Mainly attributable to the increase in gains from fair-value change of fixed-income derivative investments
Investment income	Mainly attributable to the increase in gains from long-term equity investments under the equity method
Non-operating expenses	Mainly attributable to the decrease in compensation payments
Minority interests	Mainly attributable to the increase in profit of subsidiaries with a higher level of minority interests
Other comprehensive income	Mainly attributable to losses arising from the translation of foreign currency statements
Comprehensive income attributable to equity holders of the parent	Mainly attributable to the increase in profit of subsidiaries with a higher level of minority interests

Cash flow statement item	Analysis of reasons
Net cash flow from operating activities	Mainly attributable to the increase in cash paid for the purchase of goods and services and other cash paid in relation to operating activities
Net cash flow from investing activities	Mainly attributable to the increase in cash paid for the purchase of fixed assets, intangible assets and other long-term assets.
Net cash flow from financing activities	Mainly attributable to the increase in proceeds raised from the placing of new H shares and the exercise of A share warrants
Effect of exchange rate differences on cash	Mainly attributable to the decrease in exchange losses caused by exchange rate volatility

Consolidated Statement of Comprehensive Income

(Prepared under HKFRSs)
Six months ended 30 June 2010

	Note	**Six months ended 30 June 2010 (Unaudited) RMB'000**	Six months ended 30 June 2009 (Unaudited) RMB'000
Revenue	4	**30,725,420**	27,707,646
Cost of sales		**(20,874,496)**	(19,265,232)
Gross profit		**9,850,924**	8,442,414
Other income and gains	4	**860,769**	793,405
Research and development costs		**(3,195,277)**	(2,606,448)
Selling and distribution costs		**(4,065,957)**	(3,230,212)
Administrative expenses		**(1,142,620)**	(1,430,567)
Other expenses		**(543,251)**	(375,704)
Finance costs	6	**(393,926)**	(392,152)
Share of profits and losses of:			
Associates		**22,197**	10,460
Profit before tax	5	**1,392,859**	1,211,196
Income tax expense	7	**(399,571)**	(342,457)
Profit for the period		**993,288**	868,739
Attributable to:			
Equity owners of the parent		**877,489**	783,367
Minority interests		**115,799**	85,372
		993,288	868,739
Earnings per share attributable to ordinary shareholders of the parent	9		
Basic		**RMB0.32**	RMB0.30
Diluted		**RMB0.31**	RMB0.29
Other comprehensive income		**(135,085)**	(46,371)
Comprehensive income		**858,203**	822,368
Attributable to:			
Equity owners of the parent		**742,499**	736,996
Minority interests		**115,704**	85,372
		858,203	822,368

Consolidated Statement of Financial Position

(Prepared under HKFRSs)
30 June 2010

	Note	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Non-current assets			
Property, plant and equipment		**6,701,932**	6,057,574
Prepaid land lease payments		**579,461**	503,771
Intangible assets		**1,238,521**	877,397
Investments in a jointly-controlled entity		**2,256**	2,255
Investments in associates		**899,771**	438,027
Available-for-sale investments		**257,908**	253,760
Long-term trade receivables	11	**950,355**	383,749
Factored long-term trade receivables		**3,320,883**	2,968,629
Deferred tax assets		**524,496**	643,918
Pledged deposits		**856,912**	608,359
Total non-current assets		**15,332,495**	12,737,439
Current assets			
Prepaid land lease payments		**12,974**	10,980
Inventories		**11,345,804**	9,324,800
Amount due from customers for contract works	10	**11,237,486**	11,388,496
Trade and bills receivables	11	**18,837,562**	16,098,327
Factored trade receivables		**2,887,541**	2,870,221
Prepayments, deposits and other receivables		**2,894,876**	2,537,793
Derivative financial assets		**77,776**	—
Pledged deposits		**260,260**	420,986
Cash and cash equivalents		**12,285,536**	14,075,822
Total current assets		**59,839,815**	56,727,425
Current liabilities			
Trade and bills payables	12	**21,101,945**	21,531,665
Amount due to customers for contract works	10	**2,751,409**	2,519,706
Other payables and accruals		**8,129,138**	7,285,229
Interest-bearing bank borrowings		**8,979,357**	6,846,468
Bank advances on factored trade receivables		**2,887,541**	2,870,221
Tax payable		**561,571**	1,147,347
Dividends payable		**128,143**	16,966
Total current liabilities		**44,539,104**	42,217,602
Net current assets		**15,300,711**	14,509,823
Total assets less current liabilities		**30,633,206**	27,247,262

Consolidated Statement of Financial Position (continued)

(Prepared under HKFRSs)
30 June 2010

	Note	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Total assets less current liabilities		**30,633,206**	27,247,262
Non-current liabilities			
Interest-bearing bank borrowings		**1,319,181**	2,396,393
Bank advances on factored long-term trade receivables		**3,320,883**	2,968,629
Bonds cum warrants		**3,678,023**	3,632,681
Deferred tax liabilities		**3,551**	3,924
Financial guarantee contract		**3,689**	3,689
Provision for retirement benefits		**37,508**	38,028
Other long-term payables		**306,281**	255,052
Total non-current liabilities		**8,669,116**	9,298,396
Net assets		**21,964,090**	17,948,866
Equity			
Equity attributable to shareholders of the parent			
Issued capital		**2,866,732**	1,831,336
Restricted shares remaining in lock-up		**(290,572)**	(447,235)
Equity component of bonds cum warrants		**580,210**	580,210
Reserves		**17,727,353**	14,308,531
Proposed final dividends		**—**	552,425
		20,883,723	16,825,267
Minority interests		**1,080,367**	1,123,599
Total equity		**21,964,090**	17,948,866

Hou Weigui
Director

Shi Lirong
Director

Consolidated Statement of Changes in Equity

(Prepared under HKFRSs)
Six months ended 30 June 2010

	Attributable to shareholders of the parent company											
	Issued capital (Unaudited) RMB'000	Capital reserve (Unaudited) RMB'000	Equity portion of Bonds cum Warrants (Unaudited) RMB'000	Share incentive scheme reserves (Unaudited) RMB'000	Shares remaining in lock-up under Share Incentive scheme (Unaudited) RMB'000	Statutory reserves (Unaudited) RMB'000	Exchange fluctuation reserve (Unaudited) RMB'000	Retained profits (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 2010	1,831,336	5,488,825	580,210	680,864	(447,235)	1,505,203	(220,043)	6,853,682	552,425	16,825,267	1,123,599	17,948,866
Total comprehensive income for the period	–	–	–	–	–	–	(134,990)	877,489	–	742,499	115,704	858,203
Capital contribution by shareholders of the parent	79,819	3,481,624	–	–	156,663	–	–	–	–	3,718,106	–	3,718,106
Effect of changes of other equity holders' interests in associates by the equity method	–	443,298	–	–	–	–	–	–	–	443,298	–	443,298
Acquisition of minority interests	–	–	–	–	–	–	–	–	–	–	(2,200)	(2,200)
Dividends declared to minority shareholders	–	–	–	–	–	–	–	–	–	–	(156,736)	(156,736)
Capital contributions by minority shareholders	–	–	–	–	–	–	–	–	–	–	–	–
Final 2009 dividend declared	–	–	–	–	–	–	–	(7,936)	(552,425)	(560,361)	–	(560,361)
Share incentive scheme												
– Equity settled share expenses	–	–	–	79,478	–	–	–	–	–	79,478	–	79,478
– proceeds from shares issued	–	–	–	(364,564)	–	–	–	–	–	(364,564)	–	(364,564)
Transfer from capital reserves	955,577	(955,577)	–	–	–	–	–	–	–	–	–	–
At 30 June 2010	2,866,732	8,458,170	580,210	395,778	(290,572)	1,505,203	(355,033)	7,723,235	–	20,883,723	1,080,367	21,964,090

Consolidated Statement of Changes in Equity (continued)

(Prepared under HKFRSs)
Six months ended 30 June 2009

	Attributable to shareholders of the parent company										
	Issued capital (Unaudited) RMB'000	Capital reserve (Unaudited) RMB'000	Equity portion of Bonds cum Warrants (Unaudited) RMB'000	Share incentive scheme reserves (Unaudited) RMB'000	Statutory reserves (Unaudited) RMB'000	Exchange fluctuation reserve (Unaudited) RMB'000	Retained profits (Unaudited) RMB'000	Proposed final dividend (Unaudited) RMB'000	Total (Unaudited) RMB'000	Minority interests (Unaudited) RMB'000	Total equity (Unaudited) RMB'000
At 1 January 2009	1,343,330	5,118,263	580,210	599,699	1,431,820	(248,146)	5,021,369	402,999	14,249,544	934,003	15,183,547
Total comprehensive income for the period	–	–	–	–	–	(46,371)	783,367	–	736,996	85,372	822,368
Acquisition of minority interests	–	–	–	–	–	–	–	–	–	(8,918)	(8,918)
Dividends declared to minority shareholders	–	–	–	–	–	–	–	–	–	(37,273)	(37,273)
Capital contributions by minority shareholders	–	–	–	–	–	–	–	–	–	1,200	1,200
Final 2008 dividend declared	–	–	–	–	–	–	–	(402,999)	(402,999)	–	(402,999)
Disposal of subsidiaries	–	(7)	–	–	(121)	–	–	–	(128)	–	(128)
Share incentive costs	–	–	–	177,887	–	–	–	–	177,887	–	177,887
Transfer from capital reserve	402,999	(402,999)	–	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–	–	(19,439)	(19,439)
Transfer from retained profits	–	–	–	–	128	–	(128)	–	–	–	–
At 30 June 2009	1,746,329	4,715,257	580,210	777,586	1,431,827	(294,517)	5,804,608	–	14,761,300	954,945	15,716,245

Consolidated Cash Flow Statement

(Prepared under HKFRSs)
Six months ended 30 June 2010

Items	**Six months ended 30 June 2010 (Unaudited) RMB'000**	Six months ended 30 June 2009 (Unaudited) RMB'000
Net cash outflow from operating activities	**(4,910,441)**	(1,792,327)
Net cash outflow from investing activities	**(1,117,452)**	(522,307)
Net cash inflow from financing activities	**4,253,595**	3,097,495
Net increase in cash and cash equivalents	**(1,774,298)**	782,861
Cash and cash equivalents at beginning of period	**14,075,822**	11,344,160
Effect of exchange rate changes, net	**(15,988)**	(50,178)
Cash and cash equivalents at end of period	**12,285,536**	12,076,843
Analysis of balance of cash and cash equivalents		
Cash and bank balances	**12,274,536**	11,435,238
Unsecured time deposits with a maturity of less than three months	**11,000**	641,605
	12,285,536	12,076,843

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2010

1. CORPORATE INFORMATION

ZTE Corporation (the "Company") is a limited liability company established in the People's Republic of China (the "PRC").

The registered office of the Company is located at ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen 518057, the PRC.

During the period, the Company and its subsidiaries (collectively referred to as the "Group") were principally involved in the design, development, manufacture and sale of telecommunications system equipment and solutions.

In the opinion of the directors, in accordance with the Chapter 8 Qualifications for Listing of Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the controlling shareholder of the Group is Shenzhen Zhongxingxin Telecommunications Equipment Company Limited ("Zhongxingxin"), a limited liability company registered in the PRC.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the six months ended 30 June 2010. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Subsidiaries acquired during the period was accounted for under the acquisition method, which allocated the corporate merger costs to the fair values of identifiable assets acquired and liabilities and contingents assumed on the acquisition date. Acquisition costs were measured as the sum of the fair values of assets paid, equity instruments issued and liabilities incurred or assumed as at the date of transaction plus costs directly attributable to acquisition activities.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

Notes to Condensed Consolidated Interim Financial Statements

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new interpretations and amendments to Hong Kong Financial Reporting Standards ("HKFRSs") for the first time in preparation the interim financial statements. Save for certain cases which give rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised HKFRSs has had no significant effect on these financial statements.

HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment — Vesting Conditions and Cancellations
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation — Classification of Rights Issues
Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008	Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations — Plan to Sell the Controlling Interest in a Subsidiary
HKAS39 Amendments	Amendments to HKAS 39 Financial Instruments: Recognition and Measurement — Embedded Derivatives
Annual Improvements Project	Improvements to HKFRSs 2009
HK-Interpretation 4 amendment	Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners

3. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

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

(b) The terminals segment engages in the manufacture and sale of mobile phone handsets and data card products.

(c) The telecommunications software systems, services and other products segment represent the provision of telecommunications software systems such as operation support systems and the provision of feebased services.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, research and development costs, impairment losses, dividend income, share of profits and losses of associates, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

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3. SEGMENT INFORMATION (CONTINUED)

Segment assets exclude deferred tax assets, pledged deposits, cash and cash equivalents, investments in a jointly-controlled entity and associates, other receivables, other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, interest-bearing bank borrowings, other payables, bonds cum warrants, tax payable, deferred tax liabilities, provision for retirement benefits and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

An analysis of the Group's revenue and profit by operating segment for the six months ended 30 June 2010 and 2009 is set out in the following table

	Networks RMB'000	Terminals RMB'000	Telecommunications software systems, services and other products RMB'000	Total RMB'000
Six months ended 30 June 2010				
Segment revenue:				
Telecommunications system contracts	19,000,326	—	2,558,066	21,558,392
Sale of goods and services	—	7,790,253	1,376,775	9,167,028
	19,000,326	7,790,253	3,934,841	30,725,420
Segment results	4,464,723	636,737	709,482	5,810,942
Bank and other interest income				42,800
Dividend income and unallocated gains				817,969
Other unallocated expenses				(4,907,123)
Finance costs				(393,926)
Share of profits and losses of associates				22,197
Profit before tax				1,392,859
30 June 2010				
Segment assets	33,905,260	7,652,818	7,021,553	48,579,631
Investments in associates				899,771
Investments in a jointly-controlled entity				2,256
Other unallocated assets				25,690,652
Total assets				75,172,310
Segment liabilities	9,369,579	798,252	1,940,377	12,108,208
Unallocated liabilities				41,100,012
Total liabilities				53,208,220
Other segment information:				
Impairment losses recognised in profit or loss	94,051	38,561	19,477	152,089
Depreciation and amortisation	312,692	128,206	64,757	505,655
Capital expenditure	1,018,958	417,780	211,020	1,647,758

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3. SEGMENT INFORMATION (CONTINUED)

	Networks RMB'000	Terminals RMB'000	Telecommunications software systems, services and other products RMB'000	Total RMB'000
Six months ended 30 June 2009				
Segment revenue:				
Telecommunications system contracts	18,796,810	—	1,848,806	20,645,616
Sale of goods and services	—	5,575,904	1,486,126	7,062,030
	18,796,810	5,575,904	3,334,932	27,707,646
Segment results	3,735,684	905,732	570,786	5,212,202
Bank and other interest income				48,998
Dividend income and unallocated gains				744,407
Other unallocated expenses				(4,412,719)
Finance costs				(392,152)
Share of profits and losses of associates				10,460
Profit before tax				1,211,196
31 December 2009				
Segment assets	31,782,376	5,513,601	5,738,245	43,034,222
Investments in associates				438,027
Investments in a jointly-controlled entity				2,255
Other unallocated assets				25,990,360
Total assets				69,464,864
Segment liabilities	8,630,920	506,969	1,558,295	10,696,184
Unallocated liabilities				40,819,814
Total liabilities				51,515,998

Geographical analysis

The three operating segments of the Group are mainly operated in the PRC, other Asian regions and Africa. An analysis of the Group's revenue and profit by geographical segments for the six months ended 30 June 2010 and 2009 is set out in the following table:

	Six months ended 30 June 2010	Six months ended 30 June 2009
The PRC (place of domicile)	**15,469,878**	14,950,479
Asia (excluding the PRC)	**5,250,734**	6,450,316
Africa	**4,463,961**	2,497,366
Other countries	**5,540,847**	3,809,485
	30,725,420	27,707,646

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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 intra-group transactions have been eliminated on consolidation.

An analysis of the Group's revenue, other income and gains is as follows:

	Six months ended 30 June 2010 RMB'000	Six months ended 30 June 2009 RMB'000
Turnover		
Telecommunications system contracts	**21,558,392**	20,645,616
Sale of goods and services	**9,167,028**	7,062,030
	30,725,420	27,707,646

	Six months ended 30 June 2010 RMB'000	Six months ended 30 June 2009 RMB'000
Other income		
Financial and taxation subsidies	**95,031**	47,226
Technology grants	**88,036**	41,911
VAT allowance, exemption and rebates[#]	**553,281**	511,557
Bank interest income	**42,800**	48,998
Others	**1,914**	—
	781,062	649,692
Gains		
Disposal of derivative financial instruments	**—**	12,648
Fair value gain of derivative financial instruments	**77,926**	—
Exchange gains	**—**	128,965
Dividends received	**1,781**	2,100
	79,707	143,713
	860,769	793,405

[#] During the six months ended 30 June 2010, Zhongxing Software Company Limited ("Zhongxing Software") and ZTEsoft Technology Co. Ltd ("ZTEsoft") being designated software enterprises, were entitled to VAT refunds on the effective VAT rate in excess of 3% after the payment of statutory net output VAT of 17%. Such VAT refunds were approved by the Shenzhen State Tax Bureau and Nanjing State Tax Bureau.

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5. PROFIT BEFORE TAX

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

	Six months ended 30 June 2010 RMB'000	Six months ended 30 June 2009 RMB'000
Cost of inventories sold	**17,998,127**	17,188,403
Depreciation	**419,211**	383,308
Amortisation of intangible assets (except deferred development costs)	**13,349**	57,525
Amortisation of deferred development costs	**73,095**	43,353
Impairment of trade receivables *	**254,587**	341,154
Provision for warranties **	**19,267**	6,956
Write-down/(reversal) of inventories to net realisable value**	**(102,498)**	104,775
Exchange difference, net *	**271,470**	—
Loss on disposal of property, plant and equipment *	**10,222**	6,598
Equity-settled share expense	**79,478**	177,887

* Impairment of trade receivables, exchange difference and loss on disposal of property, plant and equipment are included in "Other expenses" on the face of the consolidated income statement.

** The provision for warranties, amortisation of deferred development costs and write-down of inventories to net realisable value are included in "Cost of sales" on the face of the consolidated income statement.

6. FINANCE COSTS

	Six months ended 30 June 2010 RMB'000	Six months ended 30 June 2009 RMB'000
Interest on bank loans wholly repayable within five years	**125,122**	121,282
Finance costs on trade receivables and bills discounted	**191,462**	196,059
Interest on bonds cum warrants	**77,342**	74,811
	393,926	392,152

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7. TAXATION

	Six months ended 30 June 2010 RMB'000	Six months ended 30 June 2009 RMB'000
Group:		
Current — Mainland China	**387,428**	257,134
Current — Overseas	**58,084**	100,903
Deferred	**(45,941)**	(15,580)
Total tax charge for the period	**399,571**	342,457

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Under the new enterprise income tax law of the PRC effective from 1 January 2008, the tax rate applicable to domestic-invested enterprises and foreign-invested enterprises has been standardised at 25%.

As a hi-tech enterprise in Shenzhen, the Company has obtained the certificate as a national-grade hi-tech enterprise, with which the Company enjoys an enterprise income tax rate of 15% for the years from 2008 to 2010.

Major subsidiaries operating in Mainland China that were entitled to preferential tax rates are as follows:

Xi'an Zhongxingxin Software Company Limited, recognised as a software enterprise in December 2009, 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 years pursuant to Document Cai Shui (2008) No. 1. The current year is its second profitable year.

Nanjing Zhongxing New Software Company Limited, recognised as a software enterprise in December 2009, has been entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Document Cai Shui (2008) No. 1. The current year is its first profitable year.

Shenzhen Zhongxing ICT Company Limited, recognised as a software enterprise in September 2009, 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 years pursuant to Document Shen Guo Shui Jian Mian Bei An (2009) No. 383. The current year is its second profitable year.

Shenzhen Zhongxing Software Company Limited, a national-grade hi-tech enterprise, was an Important Software Enterprise under the National Planning Layout from 2007 to 2009 and is currently applying for the status of Important Software Enterprise under the National Planning Layout in 2010. An Important Software Enterprise under the National Planning Layout is subject to an enterprise income tax rate of 10%.

Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise.

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

Notes to Condensed Consolidated Interim Financial Statements

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7. TAXATION (COUTINUED)

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

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

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

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

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

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

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

Wuxi Zhongxing Optoelectronics Technologies Company Limited was registered at Wuxi State's High-tech Industrial Development Zone and is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a as a national-grade hi-tech enterprise.

8. DIVIDEND

The Directors do not recommend any payment of interim dividend for the six months ended 30 June 2010 (Same period of 2009: nil).

9. EARNINGS PER SHARE

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

The calculation of diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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9. EARNINGS PER SHARE (CONTINUED)

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

	Six months ended 30 June 2010	Six months ended 30 June 2009 (Restated)
Earnings		
Net profit attributable to ordinary equity holders of the parent company for the period	**877,489**	783,367
Shares		
Weighted average number of ordinary shares of the Company in issue (Note 1)	**2,736,790**	2,619,494
Restricted Shares under share incentive scheme (Note 2)	**64,928**	70,131
Adjusted weighted average number of ordinary shares in issue	**2,801,718**	2,689,625

Note 1: Earnings per share for each period set out have been calculated on the basis of the adjusted number of shares as a result of the implementation of the 2009 profit distribution plan. Basic earnings per share for the reporting period was calculated on the basis of the weighted average ordinary share capital representing the total share capital as at the end of the period less 64,928,143 restricted shares remaining in lock-up.

Note 2: As certain Subject Share quotas under the Phase I Share Incentive Scheme of the Company remaining in lock-up gave rise to potentially dilutive ordinary shares of 64,928,143 shares and 46,753,747 shares for the reporting period and the same period of 2009, respectively, diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factors, and diluted earnings per share for the same period of 2009 has been restated to reflect the implementation of the Company's 2009 profit distribution and share capital increase by way of capitalisation of reserves.

10. TELECOMMUNICATIONS SYSTEM CONTRACTS

	30 June 2010	31 December 2009
Amount due from customers for contract works	**11,237,486**	11,388,496
Amount due to customers for contract works	**(2,751,409)**	(2,519,706)
	8,486,077	8,868,790
Contract costs incurred plus recognized gross profits (loss)	**41,990,915**	45,189,806
Less: estimated losses	**414,489**	625,992
Progress billings	**33,090,349**	35,695,024
	8,486,077	8,868,790

11. TRADE AND BILLS RECEIVABLES

Progress payment for telecommunications system contracts is normally made in accordance with the agreed payment schedule. The Group's trading terms with its major customers are mainly on credit, except for new customers, where payment in advance is normally required. With the exception of certain overseas customers, the credit period is generally 90 days and is extendable up to one year depending on customers' credit worthiness. The credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

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11. TRADE AND BILLS RECEIVABLES (CONTINUED)

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

	30 June 2010 RMB'000	31 December 2009 RMB'000
Within 1 year	**18,906,937**	16,053,832
1 to 2 years	**811,987**	413,242
2 to 3 years	**64,950**	15,002
Over 3 years	**4,043**	—
	19,787,917	16,482,076
Less: Current portion of trade and bills receivables	**(18,837,562)**	(16,098,327)
Long-term portion	**950,355**	383,749

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

	30 June 2010 RMB'000	31 December 2009 RMB'000
Controlling shareholder	**—**	—
Jointly-controlled entities	**—**	—
Associates	**35**	12,459
Related companies	**19,805**	—
	19,840	12,459

The balances are unsecured, interest-free and on credit terms similar to those offered to the major customers of the Group.

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12. TRADE AND BILLS PAYABLES

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

	30 June 2010 RMB'000	31 December 2009 RMB'000
Within 6 months	**20,913,260**	21,161,940
7 to 12 months	**67,586**	41,328
1 to 2 years	**64,179**	276,089
2 to 3 years	**17,984**	24,525
Over 3 years	**38,936**	27,783
Total	**21,101,945**	21,531,665

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

	30 June 2010 RMB'000	31 December 2009 RMB'000
Controlling shareholder	**58,150**	85,566
Related companies	**59,385**	54,601
Associates	**55,645**	75,796
Total	**173,180**	215,963

The balances are unsecured, interest-free and are repayable on demand.

Trade payables are non-interest-bearing and are normally settled on 90-day terms.

13. CONTINGENT LIABILITIES

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

	30 June 2010 RMB'000	31 December 2009 RMB'000
Guarantees given to banks in connection with borrowing to customers	**66,684**	66,796
Guarantees given to banks in respect of performance bonds	**8,973,406**	7,721,644
	9,040,090	7,788,440

(b) In August 2006, a customer instituted arbitration against the Company to demand indemnity from the Company in the amount of PKR762,982,000 (approximately RMB60,810,000). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract to demand for damages. In February 2008, the arbitration authority issued its award ruling that an indemnity of PKR328,040,000 (approximately RMB26,145,000) is to be paid by the Company. The Company has set aside a provision for such amount at the end of the reporting period. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a counter-claim against the customer's breach of contract. As at the date of approval of the financial statements, the Group had not made any payments of compensation pursuant to the aforesaid judgement. The legal department of the Company is of the view that it is difficult to predict the final outcome of the case at this stage and the case will likely stand a prolonged period of litigation. There was no significant progress for the case during the reporting period. The directors are of the opinion that the aforesaid arbitration will not have any material adverse impact on the financial conditions and operating results of the Group. Accordingly, the Company has not made any further provisions.

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13. CONTINGENT LIABILITIES (CONTINUED)

(c) In April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth"), and engineering contractor of the Company, demanded the Company to increase the contract amount on the grounds that raw material prices had increased in connection with first a slowdown in work, followed later by total suspension. In September 2008, the Company instituted litigation with the Nanshan District People's Court, pleading for the revocation of the contract and court order of the evacuation of the work sites by the defendant, as well as a penalty payment for work delay in the amount of RMB24,912,000 and damages of RMB11,319,000 payable to the Company. The court handed the first trial judgement in July 2009, ruling that the contract between the Company and China Construction Fifth be revoked and a penalty payment for work delay in the amount of RMB12,817,000 be payable by China Construction Fifth. China Construction Fifth had appealed against the said judgement and the second trial is currently in progress. In October and November 2009, the Group further instituted two complaints with the Nanshan District People's Court, demanding China Construction Fifth to undertake a penalty payment for work delay in the amount of RMB30,615,000 and the payment of RMB39,537,000, representing the amount of work payments in excess of the total contract amount. In July 2009, China Construction Fifth instituted a separate litigation with the Shenzhen Intermediate People's Court, demanding the Company to make a payment of RMB75,563,000 for raw materials and staff deployment. The said cases are currently in trial. The directors are of the opinion that the aforesaid arbitration will not have any material adverse impact on the financial conditions and operating results of the Group.

Save as disclosed above, the Company and the Group had no other significant contingent liabilities as at 30 June 2010.

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 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2010 RMB'000	31 December 2009 RMB'000
Within one year	**168,956**	196,676
In the second to fifth years, inclusive	**146,607**	197,467
After five years	**33,248**	31,511
	348,811	425,654

15. COMMITMENTS

	30 June 2010	31 December 2009
Capital commitment		
Contracted, but not provided for	**1,258,171**	1,240,388
Authorised, but not contracted for	**5,639,255**	5,833,950
Investment commitment		
Contracted, but not fully performed	**67,557**	18,850

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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:

	Note	**Six months ended 30 June 2010 RMB'000**	Six months ended 30 June 2009 RMB'000
The controlling shareholder:			
Purchase of raw materials	(a)	**155,882**	250,118
Sale of finished goods	(b)	**80**	329
Rental expense	(c)	**9,905**	15,303
Asset transfer	(f)	**152,900**	—
Associates:			
Purchase of raw materials	(a)	**118,190**	112,854
Sale of finished goods	(b)	**43,967**	27,331
Entities controlled by key management personnel of the Group:			
Purchase of raw materials	(a)	**—**	177,281
Sale of finished goods	(b)	**4,218**	28,919
Rental expense	(d)	**21,422**	19,595
Corporation guarantee	(e)	**8,000**	—
Entities controlled by the controlling shareholder			
Purchase of raw materials	(a)	**99,836**	127,479
Sale of finished goods	(b)	**441**	8

In the opinion of the directors, the above transactions were conducted in the ordinary course of business.

Note:

(a) The purchases of raw materials were made in accordance with published prices and conditions similar to those offered by the suppliers to their major customers.

(b) The sales of finished goods were made in accordance with published prices and conditions offered to major customers of the Group.

(c) The rental expense was charged at a rate ranging from RMB40 to RMB42.5 per square metre.

(d) The rental expense was charged at a rate of ranging from RMB30 to RMB115 per square metre.

(e) The guarantee in respect of bank borrowing was provided by a related party at nil consideration, and it will be terminated on 25 August 2010.

(f) During the period, the Group purchased properties from Shenzhen Zhongxingxin Telecommunications Equipment Company Limited at an acquisition price of RMB152,900,000 (same period of 2009: nil), which had been determined through negotiation taking into account the assessed value of the properties.

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16. RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Compensation of key management personnel of the Group

	Six months ended 30 June 2010 RMB'000	Six months ended 30 June 2009 RMB'000
Short-term employee benefits	**3,535**	3,349

17. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 August 2010.

Documents Available for Inspection

1. Text of the 2010 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 2010 duly signed by the Company's legal representative, Chief Financial Officer and Head of Finance Division;

3. Original copies of all of the Company's released documents and announcements published in China Securities Journal, Securities Times and Shanghai Securities News during the reporting period;

4. Articles of Association.

By order of the Board
Hou Weigui
Chairman

20 August 2010