



ZTE中兴 中兴通讯股份有限公司
ZTE CORPORATION



Interim Report **2011**

stock code : 000063.SZ 763.HK

Important

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

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

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

The interim report has been considered and approved at the twenty-second meeting of the Fifth Session of the Board of Directors of the Company. Mr. Zhang Junchao, Director, was unable to attend due to work reasons and has appointed Mr. Wang Zhanchen, Director, to vote on his behalf.

The interim financial statements of the Group for the six months ended 30 June 2011 were unaudited.

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

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Definitions

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

“Company” or “ZTE”	ZTE Corporation, a joint stock limited company incorporated in China on 11 November 1997 under the Company Law of the People’s Republic of China, the A shares and H shares of which are listed on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange respectively
“Articles of Association”	The Articles of Association of ZTE Corporation
“Group”	ZTE and one or more of its subsidiaries
“Board of Directors”	The board of directors of the Company
“Directors”	Members of 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
“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)
“SFO”	Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong)
“HKFRSs”	Hong Kong Financial Reporting Standards (including Hong Kong Accounting Standards (“HKASs”) and Interpretations)
“PRC ASBEs”	Generally accepted accounting principles in China
“CASC”	China Aerospace Science and Technology Corporation and its subsidiaries
“Xi’an Microelectronics”	Xi’an Microelectronics Technology Research Institute
“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
“ZTE HK”	ZTE (H.K.) Limited
“Nationz Technologies”	Nationz Technologies, Inc.
“BOCHK”	Bank of China (Hong Kong) 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.

2G	Second-generation mobile networks, formed with digital radio technology to provide higher network capacity and improved voice quality and encryption, as well as seamless international roaming. The existing mobile communications network primarily comprises second-generation GSM and CDMA, which has a maximum data provision capacity of 115.2 Kbps with the adoption of the IS-95B technology of GSM, GPRS and CDMA, or 384 Kbps in case of the GSM system, which adopts the EDGE technology.
3G	Third-generation mobile networks supporting peak data rates of 144Kbps at mobile user speeds, 384Kbps at pedestrian user speeds and 2Mbps in fixed locations (peak speeds), although some initial deployments were configured to support just 64Kbps. ITU coordinates 3G standards through its IMT-2000 project and key standards bodies such as 3GPP and 3GPP2.
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.
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).
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.
TD-SCDMA	Time division synchronous code division multiple access, a 3G technology developed in China to support voice and data transmission.
WCDMA	Wideband CDMA, a UMTS standard for 3G digital mobile networks adopting CDMA technologies to provide enhanced capacity for voice with a theoretical maximum data rate of 3Mbps.
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.
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.
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.
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.

Glossary

LTE	LTE (Long Term Evolution) refers to the long-term evolution of 3G technology with OFDM as the core, and is regarded as 4G in the making. LTE is being promoted by 3GPP and its major performance targets include maximum speeds of 100Mbps (download) and 50Mbps (upload) using 20MHz bandwidth.
IN	Service networks built on core networks and the Internet to provide voice and data value-added services for end-users, such as pre-payments, virtual private networks, call centers and SMS/MMS/WAP/payments and Internet of Things, etc.
IPTN	IP telecommunications network, a network solution based IP technologies and capable of meeting the needs of telecommunications operations with the provision of a diverse range of services. IPTN is a reengineering of traditional IP networks aimed at resolving QoS, safety and management issues of IP networks.
Internet of Things	A network interconnecting all things in the physical world, characterised by comprehensive sensors, reliable transmission and smart processing and aiming at connection among any objects at any time, any location. It can help to realise the organic integration of the human society with the physical world, so that humankind can manage production and life in a more detailed and dynamic way to generally enhance the level of informatisation of the society.
Cloud Computing	A concept underlining the fusion of traditional computing technologies (such as grid computation and distributive computation) with network technologies. The core idea is to centralise the management and modulation of massive computing resources connected through the network, forming a pool of computing resources that serve users on an as-needed basis. Cloud Computing is applied in commercial offerings such as SaaS, PaaS and IaaS.
Access network	In the public telecommunications network, the access network serves as an interface between the local exchange and the users, being primarily responsible for completing users' access to the core network. The access network is formed by a range of equipment between the service node interface (SNI) and the user network interface (UNI).
ICT	IT represents the technology for processing information, whereas CT represents the technology for communications (information transmission). ICT is a new product and service based on the fusion of information and communications technologies.

Corporate Information

(I) BASIC INFORMATION

1	<p>Legal name (in Chinese) Chinese abbreviation Legal name (in English) English abbreviation</p>	<p>中興通訊股份有限公司 中興通訊 ZTE Corporation ZTE</p>
2	<p>Legal representative</p>	<p>Hou Weigui</p>
3	<p>Secretary to the Board of Directors/Company Secretary Securities affairs representatives Correspondence Address</p> <p>Telephone Facsimile E-mail</p>	<p>Feng Jianxiong</p> <p>Xu Yulong, Cao Wei 6/F A Wing, ZTE Plaza, 55 Keji Road South, Shenzhen, Guangdong Province, People's Republic of China +86 755 26770282 +86 755 26770286 fengjianxiong@zte.com.cn</p>
4	<p>Registered and office address</p> <p>Postal code Principal place of business in Hong Kong</p> <p>Website E-mail</p>	<p>ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China 518057</p> <p>8/F Gloucester Tower, The Landmark, 15 Queen's Road Central, Central, Hong Kong http://www.zte.com.cn fengjianxiong@zte.com.cn</p>
5	<p>Domestic newspapers designated for information disclosure by the Company Authorised websites on which this report is made available Place where this report is available for inspection</p>	<p>China Securities Journal, Securities Times, Shanghai Securities News http://www.cninfo.com.cn http://www.hkexnews.hk ZTE Plaza, 55 Keji Road South, Shenzhen, Guangdong Province, People's Republic of China</p>
6	<p>Listing information</p>	<p>A shares Shenzhen Stock Exchange Abbreviated name of stock: 中興通訊 Stock code: 000063</p> <p>Bonds Shenzhen Stock Exchange Abbreviated name of bond: 中興債1 Bond code: 115003</p> <p>H shares Hong Kong Stock Exchange Abbreviated name of stock: ZTE Stock code: 763</p>

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 2011)	End of last year (31 December 2010)	Change as at the end of the reporting period compared with the end of last year
Total assets	96,484,827	84,152,357	14.65%
Owners' equity attributable to shareholders of the listed company	23,051,852	23,093,872	(0.18%)
Share capital	2,866,732	2,866,732	0.00%
Net asset per share attributable to shareholders of the listed company (RMB/share) ^{Note 1}	8.22	8.24	(0.24%)
Items	Reporting period (Six months ended 30 June 2011)	Same period of last year (Six months ended 30 June 2010)	Change compared with the same period of last year
Operating revenue	37,336,595	30,725,420	21.52%
Operating profit	683,744	673,886	1.46%
Total profit	1,272,749	1,392,859	(8.62%)
Net profit attributable to shareholders of the listed company	769,271	877,489	(12.33%)
Net profit after extraordinary items attributable to shareholders of the listed company	(76,936)	743,528	(110.35%)
Basic earnings per share (RMB/share) ^{Note 2}	0.27	0.32	(14.44%)
Diluted earnings per share (RMB/share) ^{Note 3}	0.27	0.31	(14.30%)
Weighted average return on net assets (%)	3.29%	4.41%	Decreased by 1.12 percentage points
Weighted average return on net assets after extraordinary items (%)	(0.33%)	3.74%	Decreased by 4.07 percentage points
Net cashflow from operating activities	(6,171,353)	(3,684,312)	(67.50%)
Net cashflow from operating activities per share (RMB/share) ^{Note 4}	(2.20)	(1.31)	(67.94%)

Note 1: Net assets per share attributable to the shareholders of the listed company for the first half of 2011 and at the end of period in 2010 were calculated on the basis of the total share capital as at the end of the respective period less 62,407,186 restricted shares remaining in lock-up under share incentive scheme.

Note 2: Basic earnings per share for the first half of 2011 were calculated on the basis of the weighted average number of shares less 62,407,186 restricted shares remaining in lock-up under share incentive scheme. Basic earnings per share for the same period in 2010 were calculated on the basis of the weighted average number of shares less 64,928,143 restricted shares remaining in lock-up under share incentive scheme.

Note 3: 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 61,864,408 shares and 64,928,143 shares for the reporting period and the same period of 2010, respectively, diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factors.

Note 4: Net cash flow from operating activities per share for the first half of 2011 was calculated on the basis of the total share capital as at the end of the period less 62,407,186 restricted shares remaining in lock-up under share incentive scheme. Net cash flow from operating activities per share for the same period of 2010 was calculated on the basis of the total share capital as at 30 June 2010 less 64,928,143 restricted shares remaining in lock-up under share incentive scheme.

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

Unit: RMB in thousands

Extraordinary items	Amount
Other non-operating income	117,381
Investment gains	1,154,822
Less: Losses arising from the disposal of non-current assets	5,087
Losses arising from fair value change	236,551
Other non-operating expenses	35,027
Effect of income tax	149,331
Total	846,207

2. Major financial indicators prepared in accordance with HKFRSs

Items	Six months ended 30 June 2011	Six months ended 30 June 2010
Basic earnings per share (RMB/share) ^{Note 1}	0.27	0.32
Weighted average return on net assets (%)	3.29%	4.41%
Weighted average return on net assets after extraordinary items (%)	(0.33%)	3.74%

Item	As at 30 June 2011	As at 31 December 2010
Net asset per share attributable to shareholders of the listed company (RMB/share) ^{Note 2}	8.22	8.24

Note 1: Basic earnings per share for the first half of 2011 was calculated on the basis of the weighted average number of shares less 62,407,186 restricted shares remaining in lock-up under share incentive scheme. Basic earnings per share for the same period in 2010 was calculated on the basis of the weighted average number of shares 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 for the first half of 2011 and at the end of period in 2010 were calculated on the basis of the total share capital as at the end of the respective period less 62,407,186 restricted shares remaining in lock-up under share incentive scheme.

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 2010)		Increase/decrease (+/-) resulting from changes in the reporting period					Closing balance (30 June 2011)	
	Number	Percentage	Issue of new shares	Bonus issue	Transfer from capital reserve	Others ^{Note}	Sub-total	Number	Percentage
I. Shares subject to lock-up	66,918,472	2.34%	—	—	—	164,974	164,974	67,083,446	2.34%
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned corporate shares	—	—	—	—	—	—	—	—	—
3. Other domestic shares	60,141,711	2.10%	—	—	—	—	—	60,141,711	2.10%
Comprising: Domestic non-stated owned corporate shares	—	—	—	—	—	—	—	—	—
Domestic natural person shares	60,141,711	2.10%	—	—	—	—	—	60,141,711	2.10%
4. Foreign shares	—	—	—	—	—	—	—	—	—
Comprising: Foreign corporate shares	—	—	—	—	—	—	—	—	—
Foreign natural person shares	—	—	—	—	—	—	—	—	—
5. Senior management shares	6,776,761	0.24%	—	—	—	164,974	164,974	6,941,735	0.24%
II. Shares not subject to lock-up	2,799,813,212	97.66%	—	—	—	-164,974	-164,974	2,799,648,238	97.66%
1. RMB ordinary shares	2,275,158,674	79.36%	—	—	—	-164,974	-164,974	2,274,993,700	79.36%
2. Domestic-listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares (H Shares)	524,654,538	18.30%	—	—	—	—	—	524,654,538	18.30%
4. Others	—	—	—	—	—	—	—	—	—
III. Total number of shares	2,866,731,684	100.00%	—	—	—	—	—	2,866,731,684	100.00%

Note: According to relevant domestic regulations, shares held by Directors, Supervisors or senior management of the Company shall be subject to lock-up on a pro-rata basis.

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 2010	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 <small>Note 3</small>	Number of shares subject to lock-up at the end of the reporting period	Lock-up conditions	Date of unlocking
1	Hou Weigui	742,169	0	0	742,169	Restricted senior management shares	Note 1
2	Chen Jie	412,863	0	52,500	465,363	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
3	Ni Qin	395,425	0	48,675	444,100	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
4	Xu Huijun	390,488	84,397	94,500	400,591	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
5	Yin Yimin	395,520	0	0	395,520	Restricted senior management shares	Note 1
6	Zhao Xianming	390,487	95,625	65,032	359,894	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
7	Zeng Xuezhong	351,000	75,000	78,750	354,750	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
8	Fan Qingfeng	329,062	56,250	78,750	351,562	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
9	Pang Shengqing	329,502	82,376	78,750	325,876	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
10	Ye Weimin	288, 589	0	34,118	322,707	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
11	Others	62,893,367	240,945	268,492	62,920,914	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
	Total	66,918,472	634,593	799,567	67,083,446		

Note 1: According to relevant domestic regulations, up to 25% of the shares held may be disposed of by the Directors, Supervisors and senior management of the Company 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: Certain senior management and Supervisors of the Company acquired A shares of the Company in the secondary market. For details please refer to the "Announcement on the Purchase of the Company's Shares by the Management of the Company" published by the Company on 27 June 2011. In accordance with relevant domestic regulations, up to 25% of the newly-held unrestricted shares may be transferred by the Directors, Supervisors and senior management during the year.

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 92,061 shareholders (of which 91,709 were holders of A shares and 352 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	881,826,620	30.76%	0	Nil
2. HKSCC Nominees Limited	Foreign shareholders	523,713,568	18.27%	0	Unknown
3. China Life Insurance Company Limited – Dividend – Individual Dividend – 005L – FH002 Shen	Others	64,877,422	2.26%	0	Unknown
4. CITIC Trust Co.,Ltd. – Wealth Management 06	Others	48,495,000	1.69%	0	Unknown
5. Hunan Nantian (Group) Co., Ltd	State-owned corporate	31,208,841	1.09%	0	Unknown
6. China Life Insurance Company Limited – Traditional – General Insurance Products – 005L-CT001 Shen	Others	29,267,981	1.02%	0	Unknown
7. ICBC – Guangfa Jufeng Stock Fund	Others	24,776,798	0.86%	0	Unknown
8. China Life Insurance (Group) Company Limited – Traditional – General Insurance Products	Others	22,176,845	0.77%	0	Unknown
9. Agricultural Bank of China – China Post Core Growth Stock Securities Investment Fund	Others	19,500,000	0.68%	0	Unknown
10. BOC – E Fund SZSE 100 ETF	Others	19,022,603	0.66%	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	881,826,620	A shares
2. HKSCC Nominees Limited	523,713,568	H shares
3. China Life Insurance Company Limited – Dividend – Individual Dividend – 005L – FH002 Shen	64,877,422	A shares
4. CITIC Trust Co.,Ltd. – Wealth Management 06	48,495,000	A shares
5. Hunan Nantian (Group) Co., Ltd	31,208,841	A shares
6. China Life Insurance Company Limited – Traditional – General Insurance Products – 005L-CT001 Shen	29,267,981	A shares
7. ICBC – Guangfa Jufeng Stock Fund	24,776,798	A shares
8. China Life Insurance (Group) Company Limited – Traditional – General Insurance Products	22,176,845	A shares
9. Agricultural Bank of China – China Post Core Growth Stock Securities Investment Fund	19,500,000	A shares
10. BOC – E Fund SZSE 100 ETF	19,022,603	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 3rd and 6th ranking shareholders among the top 10 shareholders were managed by the same fund manager – China Life Insurance Company Limited. The 8th ranking shareholder was managed by China Life Insurance Company (Group) Limited, the controlling shareholder of China Life Insurance 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	-48,495,000	881,826,620	A shares	0	881,826,620	Nil

Note: On 13 June 2011, Zhongxingxin disposed of 48,495,000 shares in the Company (1.69% of the total share capital of the Company) through the trading system of Shenzhen Stock Exchange during the reporting period. For details please refer to the Company's Announcement on Sell-down by Shareholders dated 13 June 2011.

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 2011, 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 SFO:

Name	Capacity	Number of shareholding	Approximate shareholding as a percentage (%) of:	
			Total share capital	Class of shares
Zhongxingxin	Beneficial owner	881,826,620 A shares (L)	30.76(L)	37.65(L)
Zhongxing WXT	Interest of controlled corporation	881,826,620 A shares (L)	30.76(L)	37.65(L)
Xi'an Microelectronics	Interest of controlled corporation	881,826,620 A shares (L)	30.76(L)	37.65(L)
China Aerospace Electronics Technology Research Institute (formerly known as China Aerospace Times Electronics Corporation)	Interest of controlled corporation	881,826,620 A shares (L)	30.76(L)	37.65(L)
China Aerospace Science and Technology Corporation	Interest of controlled corporation	881,826,620 A shares (L)	30.76(L)	37.65(L)
JPMorgan Chase & Co.	Beneficial owner, investment manager and approved lending agent	50,776,034 H shares (L)	1.77(L)	9.68(L)
JPMorgan Chase & Co.	Beneficial owner	2,825,310 H shares (S)	0.10(S)	0.54(S)
JPMorgan Chase & Co.	Approved lending agent	27,929,220 H shares (P)	0.97(P)	5.32(P)
Deutsche Bank Aktiengesellschaft	Beneficial owner, investment manager and person holding interest of guarantee on shares	44,079,239 H shares (L)	1.54(L)	8.40(L)
Deutsche Bank Aktiengesellschaft	Beneficial owner and person holding an interest of guarantee on shares	24,592,890 H shares (S)	0.86(S)	4.69(S)
Deutsche Bank Aktiengesellschaft	Approved lending agent	726,400 H shares (P)	0.03(P)	0.14(P)
Aranda Investments (Mauritius) Pte Ltd	Interest of controlled corporation	11,141,800 H shares (L)	1.16(L) ^{Note}	6.96(L) ^{Note}
Massachusetts Financial Services Company ("MFS")	Investment manager	8,428,100 H shares (L)	0.88(L) ^{Note}	5.26(L) ^{Note}
Sun Life Financial, Inc.	Interest of controlled corporation	8,428,100 H shares (L)	0.88(L) ^{Note}	5.26(L) ^{Note}

(L) — long position, (S) — short position, (P) — lending pool

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

Save as disclosed above, as at 30 June 2011, 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 SFO.

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	989,560	—	—	989,560	—	—
2	Lei Fanpei	Vice Chairman	—	—	—	—	—	—
3	Xie Weiliang	Vice Chairman	27,300	—	—	27,300	12,285	—
4	Wang Zhanchen	Director	—	—	—	—	—	—
5	Zhang Junchao	Director	27,300	—	—	27,300	12,285	—
6	Dong Lianbo	Director	27,300	—	—	27,300	12,285	—
7	Shi Lirong	Director and President	300,425	—	—	300,425	—	—
8	Yin Yimin	Director	527,361	—	—	527,361	—	—
9	He Shiyong	Director and Executive Vice President	287,450	—	—	287,450	—	—
10	Qu Xiaohui	Independent Director	—	—	—	—	—	—
11	Wei Wei	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	332,187	—	—	332,187	—	—
16	He Xuemei	Supervisor	—	25,289	—	25,289	—	Note 1
17	Zhou Huidong	Supervisor	40,131	25,000	—	65,131	18,058	Note 1
18	Wang Yan	Supervisor	—	—	—	—	—	—
19	Xu Weiyan	Supervisor	7,666	—	—	7,666	—	—
Senior management of the Company								
20	Wei Zaisheng	Executive Vice President and Chief Financial Officer	322,850	—	—	322,850	—	—
21	Xie Daxiong	Executive Vice President	414,410	1,000	—	415,410	122,850	Note 1
22	Tian Wenguo	Executive Vice President	233,316	70,000	—	303,316	122,850	Note 1
23	Qiu Weizhao	Executive Vice President	273,000	70,000	—	343,000	122,850	Note 1
24	Fang Qingfeng	Executive Vice President	363,750	105,000	—	468,750	184,275	Note 1
25	Chen Jie	Senior Vice President	550,485	70,000	—	620,485	122,850	Note 1
26	Zhao Xianming	Senior Vice President	393,150	86,709	—	479,859	221,130	Note 1
27	Pang Shengqing	Senior Vice President	329,502	105,000	—	434,502	184,275	Note 1
28	Zeng Xuezhong	Senior Vice President	368,000	105,000	—	473,000	184,275	Note 1
29	Xu Huijun	Senior Vice President	408,121	126,000	—	534,121	221,130	Note 1
30	Ye Weimin	Senior Vice President	384,786	45,490	—	430,276	122,850	Note 1
31	Ni Qin	Senior Vice President	527,233	64,900	—	592,133	122,850	Note 1
32	Wu Zengqi	Senior Vice President	336,375	69,100	—	405,475	184,275	Note 1
33	Zhu Jinyun	Senior Vice President	304,450	97,600	—	402,050	171,252	Note 1
34	Zhang Renjun	Senior Vice President	—	—	—	—	—	—
35	Feng Jianxiang	Secretary to the Board of Directors	262,500	—	—	262,500	122,850	—
Total			8,038,608	1,066,088	—	9,104,696	2,265,475	—

Directors, Supervisors and Senior Management

Note 1: Certain senior management and Supervisors of the Company acquired A shares of the Company in the secondary market with private funds. For details please refer to the “Announcement on the Purchase of the Company’s Shares by the Management of the Company” published by the Company on 27 June 2011.

Note 2: None of the Company’s Directors, Supervisors and senior management held H shares in the issued share capital of the Company during the reporting period.

(II) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There are no changes in directors, supervisors and senior management of the Company during the reporting period.

(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 2011 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 2011, 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 SFO) that is required to be recorded in the register to be kept under Section 352 of the SFO, 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 2011, 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 this interim report together with the financial statements of the Group for the six months ended 30 June 2011.

FINANCIAL RESULTS

Please refer to page 54 and page 180 of this report for the results of the Group for the six months ended 30 June 2011 prepared in accordance with PRC ASBEs and HKFRSs.

(I) REVIEW OF BUSINESS IN THE FIRST HALF OF 2011

1. Overview of the PRC telecommunications industry in the first half of 2011

During the first half of 2011, the year that marked the beginning of the nation's 12th Five-Year Plan, the three big carriers in domestic market showed varying emphases in their equipment investments, while certain carriers were somewhat slackened in opening tenders for certain equipment, as compared to previous years. For the six months ended 30 June 2011, the PRC telecommunications industry reported revenue from principal operations of RMB474.07 billion, representing a year-on-year growth of 10.1%, according to figures released by the Ministry of Industry and Information Technology in China.

2. Overview of the global telecommunications industry in the first half of 2011

During the first half of 2011, the global telecommunications industry continued to steer towards positive growth. There were signs that equipment investments were back on a growth track, focused largely on the construction of wireless/wireline broadband networks, while the planning for 3G network deployment was also getting to greater depths, although overall capital expenditure by carriers varied from region to region. A number of countries started to auction their LTE licenses, with the construction of commercial or trial LTE networks taking place in mature markets such as Europe, the U.S. and Japan, etc. The broadband strategies of developed countries had accelerated the progress of wireline broadband network, so as to meet public demand for high-speed bandwidth. As wireless broadband connection was becoming more popular, sales of smart terminals were growing at a much faster rate than ordinary terminals to account for an increasing proportion among all terminal products.

3. Operating results of the Group for the first half of 2011

The global telecommunications industry experienced a slow recovery in the first half of 2011. Industry competition intensified as ongoing advances were being made in product technology innovation. Leveraging its inherent competitive strengths, the Group secured stable and growing revenue from the domestic market, while gaining solidly in revenue from the international market, where we reported sustained revenue growth in carriers' networks and stronger increment in terminals and telecommunication software systems, services and other products. Nonetheless, gross profit margin and net profit conceded on a year-on-year basis under the Group's strategy to expand market shares in a pro-active manner. Operating revenue of the Group for the first half of 2011 amounted to RMB37.337 billion, representing a year-on-year growth of 21.52%. Net profit decreased 12.33% to RMB769 million. Basic earnings per share amounted to RMB0.27.

(1) *By market*

The domestic market

During the reporting period, the Group reported an operating revenue of RMB16.527 billion from the domestic market, representing a year-on-year growth of 6.83% and accounting for 44.26% of the Group's total operating revenue. Although there was a slowdown in overall investments in the domestic telecommunications industry, the Group ensured growth in operating revenue by improving the competitiveness of its products.

Report of the Board of Directors

The international market

During the reporting period, the Group reported an operating revenue of RMB20.810 billion from the international market, accounting for 55.74% of its total operating revenue and representing a year-on-year growth of 36.41%. The Group's diligent efforts in international market development came in a variety of ways. While locking up shares in emerging markets, we continued to make large-scale breakthroughs with global mainstream carriers through cooperations with these operators on products of different modes, assuring year-on-year growth in the Group's revenue from international business.

(2) By product

The Group registered year-on-year revenue growth of 8.01% for carriers' networks, 43.96% for terminal products and 42.29% for telecommunication software systems, services and other products during the reporting period.

Carriers' networks

During the first half of 2011 under review:

In wireless products, the Group actively participated in LTE tenders in the Asia Pacific, Europe and Latin America and secured contracts for large-scale commercial or trial LTE networks, as well as 2G/3G network capacity expansion and modernisation projects of global mainstream carriers in the Asia Pacific, Eastern Europe, Africa and Latin America, by seizing opportunities presented by the global trend of wireless broadband network construction and network modernisation and reengineering. As a result, the Company market position and presence in the global wireless market has been fortified and optimised.

In connection with wireline products, the competitiveness of the Group's access network products continued to strengthen, with rapid sales growth reported in both the domestic and the overseas markets; Sales of carrying network products experienced a slight setback, reflecting declining domestic sales which more than offset the increase in international sales. We maintained our lead in access network products, notably xPON network construction, as various nations continued to roll on their broadband strategy. Meanwhile, our FTTX products were also making more significant revenue contributions. Regarding carrying network products, our customer base continued to optimise with large-scale sales achieved in emerging markets in the Asia Pacific, South America, the Middle East, India and Africa. Breakthroughs among global mainstream carriers were also being made.

Terminals

During the first half of 2011, the Group sustained rapid growth in the sales of its terminal products, reporting a 43.96% year-on-year growth in sales revenue.

During the reporting period, sales of the Group's terminal products (comprising 3G handsets in various modes and data cards) in the domestic market were gaining pace as the population of domestic 3G users continued to grow. Internationally, the Group sustained strong growth as its terminal products, including the 3G handsets, data cards and netbooks made breakthroughs among global mainstream carriers.

Telecommunication software systems, services and other products

Revenue from telecommunication software systems, services and other products grew by 42.29%, underpinned by stable growth in revenue from video, network terminals and wireless terminals as well as rapid growth for service products.

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

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

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

Unit: RMB in thousands:

Item	Six months ended 30 June 2011	Six months ended 30 June 2010	Percentage of increase/ decrease
Operating revenue	37,336,595	30,725,420	21.52%
Operating profit	683,744	673,886	1.46%
Net profit	769,271	877,489	(12.33%)

Note: Net profit is figures attributable to equity holders of the parent company, the reason for its decrease over the same period last year is that the gross profit margin was lower and the non operating net income decreased in the reporting period.

2. Breakdown of indicators for the reporting period by industry and product segments and comparison with the same period last year

By industry or product	Operating revenue (RMB in thousands)	Operating Costs (RMB in thousands)	Gross profit margin	Year-on-year Increase/decrease in operating revenue	Year-on-year Increase/decrease in operating costs	Year-on-year Increase/decrease in gross profit margin
I. By industry						
Manufacturing of communication equipment	37,336,595	26,243,731	29.71%	21.52%	28.35%	(3.74%)
II. By product						
Carriers' networks	20,522,957	13,458,295	34.42%	8.01%	14.32%	(3.62%)
Terminal	11,214,730	9,013,213	19.63%	43.96%	49.70%	(3.08%)
Telecommunication software systems, services and other products	5,598,908	3,772,223	32.63%	42.29%	42.18%	0.06%
Total	37,336,595	26,243,731	29.71%	21.52%	28.35%	(3.74%)

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 RMB1,648,310.

* 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.

Report of the Board of Directors

3. Breakdown of operating revenue for the reporting period by geographic region

Unit: RMB in thousands

Region	Operating revenue	Year-on-year Increase/decrease in operating revenue
The PRC	16,526,771	6.83%
Asia (excluding the PRC)	6,807,562	29.65%
Africa	5,011,605	12.27%
Europe, U.S. and Oceania	8,990,657	62.26%
Total	37,336,595	21.52%

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

Unit: RMB in thousands

By product	Operating revenue	Operating costs	Gross profit margin
Carriers' network	20,522,957	13,458,295	34.42%
Terminal	11,214,730	9,013,213	19.63%
Telecommunication software systems, services and other products	5,598,908	3,772,223	32.63%

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 2011	As a percentage of total profit for the six months ended 30 June 2010	Change (percentage points)
Operating profit	53.72%	48.38%	5.34%
Expenses for the period	797.86%	652.39%	145.47%
Investment gains	91.56%	1.72%	89.84%
Non-operating income and expenses, net	46.28%	51.62%	(5.34%)

Note: The significant increase in expenses as a percentage of total profit for the reporting period was mainly attributable to the expansion in scale by the Company, increased investments in marketing and research and development, and the significant increase in investment gains as a percentage of total profit for the reporting period was mainly attributable to the investment gains derived from the disposal of equity interests in Nationz Technologies and the transfer of gains from fair-value change of certain derivative investments upon maturity to investment gains.

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

6. **During the reporting period, the Company was not engaged in any other operating activities that had a significant impact on its net profit.**
7. **Investment gains generated from an individual investee company accounting for more than 10% of the net profit of the Company during the reporting period**

Nationz Technologies, an investee of the Company engaged in the design of integrated circuits, reported a net profit of RMB58,919,600. Investment gains contributed and fair value gains/losses by Nationz Technologies to the Company for the period amounted to RMB905,872,000, representing 117.76% of the Company's net profit. For details, please refer to the section headed "(VIII) Investment in Securities" under the "V. Material Matters" in this report.

8. **Difficulties encountered by the Group in its operations during the first half of 2011**

During the reporting period, global economic recovery continued at a slackened pace. Competition in the industry was intense, while there were increased conflicts in intellectual property rights.

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 2009 Annual Report of the Company and the "Verification report on the Deposit and Application in 2009 of Issue Proceeds of ZTE Corporation" published on the same date.

The exercise period for the "ZXC1" Warrants ended on 12 February 2010 and a total of 23,348,590 "ZXC1" Warrants had been exercised generating total issue proceeds of RMB912 million. In order to enhance the efficiency of fund application and reduce finance costs, it was approved at the Thirtieth Meeting of the Fourth Session of the Board of Directors of the Company that the Company would replace internal funds that had previously been invested as partial funding for the issue proceed projects with proceeds from the exercise of the warrants. For details, please refer to the relevant announcement published by the Company on 24 March 2010.

Report of the Board of Directors

(2) Significant investments using funds other than issue proceeds

1. Establishment of the Group Finance Company

In order to strengthen the centralised treasury management of ZTE Group and enhance the efficiency of its fund application, it was approved at the Eleventh Meeting of the Fifth Session of the Board of Directors of the Company and the Third Extraordinary General Meeting for 2010 of the Company that the Company would establish ZTE Group Finance Co., Ltd. with a capital contribution of RMB1,000 million (including USD20 million).

On 9 February 2011, the China Banking Regulatory Commission (“CBRC”) issued Yin Jian Fu [2011] No. 41 Document “Approval Reply of CBRC Concerning the Establishment of A Group Finance Company by ZTE Corporation” (銀監覆[2011]41號文件《中國銀監會關於中興通訊股份有限公司籌建企業集團財務公司的批覆》), granting approval to the establishment of a group finance company by the Company. On 11 July 2011, CBRC issued the “Approval Reply of CBRC concerning the Commencement of Business of ZTE Group Finance Co., Ltd” (Yin Jian Fu [2011] No. 236) (《中國銀監會關於中興通訊集團財務有限公司開業的批覆》銀監覆[2011]236號), granting approval to the commencement of business of ZTE Group Finance Co., Ltd.

For details, please refer to the “Announcement of Resolutions of the Eleventh Meeting of the Fifth Session of the Board of Directors”, “Announcement of External Investment — the Establishment of ZTE Finance Co., Ltd”, “Announcement in respect of the Resolutions of the Third Extraordinary General Meeting of 2010”, “Announcement on Approval Received for the Establishment of a Group Finance Company” and “Announcement on the Approval of Business Commencement of ZTE Group Finance Co., Ltd.” dated 12 October 2010, 30 November 2010, 15 February 2011 and 13 July 2011, respectively.

2. Investment in a Research and development (“R&D”) base in Yuhuatai, Nanjing

To provide support for its future business development, the Company entered into an investment agreement with Nanjing Yuhuatai District People’s Government in respect of the proposed investment in and construction of the “ZTE (Nanjing) Area No. 3 R&D Base” project in Yuhuatai District, Nanjing. The investment was considered and passed at the Sixteenth Meeting of the Fifth Session of the Board of Directors of the Company and the 2010 Annual General Meeting of the Company. Total investment in the project is estimated at RMB16 billion (comprising investment in infrastructure of RMB6 billion). The construction period of the Project is expected to be 10 years. The Company will fund investments in the Project with its internal resources.

For details, please refer to the “Announcement of External Investment”, “Announcement of Resolutions of the Sixteenth Meeting of the Fifth Session of the Board of Directors” and “Announcement in respect of Resolutions of the 2010 General Meeting” of the Company dated 17 March 2011 and 17 May 2011, respectively.

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 2011 in the 2010 Annual Report.

- (3) The consolidated gearing ratio of the Group for the first half of 2011 was 74.32%, increasing by 3.98 percentage points as compared to the end of last year mainly attributable to the combined effect of the increase in short-term loans to meet the Company's working capital requirements, the increase in amounts payable to suppliers in line with the expansion in business scale and the increase in dividend declared but not yet paid for the period. The interest-bearing debt ratio of the Group was 22.65%, which was 6.75 percentage points higher as compared to the end of last year mainly attributable to an increase in bank borrowings to satisfy the capital requirement of the Company.

(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 HKFRSSs. 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 2011		For the six months ended 30 June 2010	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
Carriers' networks	20,523.0	55.0%	19,000.3	61.8%
Terminal	11,214.7	30.0%	7,790.3	25.4%
Telecommunication software systems, services and other products	5,598.9	15.0%	3,934.8	12.8%
Total	37,336.6	100.00%	30,725.4	100.00%

Report of the Board of Directors

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, Europe, America and Oceania for the periods indicated:

Unit: RMB in millions

Region	For the six months ended 30 June 2011		For the six months ended 30 June 2010	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
The PRC	16,526.8	44.3%	15,469.9	50.4%
Asia (excluding the PRC)	6,807.6	18.2%	5,250.7	17.1%
Africa	5,011.6	13.4%	4,464.0	14.5%
Europe, U.S. and Oceania	8,990.6	24.1%	5,540.8	18.0%
Total	37,336.6	100.0%	30,725.4	100.0%

The Group reported RMB37,336.6 million in operating revenue for the first half of 2011, representing a 21.5% growth compared to the same period last year. Operating revenue from domestic sales continued to grow, increasing by 6.83% to RMB16,526.8 million. Analysed by product segment, significant year-on-year revenue growth was reported in terminals and telecommunication software systems, services and other products, whilst year-on-year revenue of carriers' networks reported moderate growth, ensuring a significant increase in the total operating revenue of the Group for the six months ended 2011 over the same period last year.

The mild growth in operating revenue from the Group's carriers' networks segment was mainly attributable to the increase in revenue from international wireless, wireline and optical communication and data communication system products coupled with an increase in domestic wireless and wireline products, setoff by the decline in optical communication and data communication system products, in the domestic market which limited the growth of revenue from carriers' networks.

The increase in operating revenue from the Group's terminal product segment was driven mainly by the increase in sales revenue for GSM handsets, CDMA handsets, 3G handsets and data cards in both the international and domestic markets.

The significant increase in operating revenue from the Group's telecommunication software systems, services and other products was mainly driven by the growth in revenue of international video, network terminals, international and domestic service products and other 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 2011		For the six months ended 30 June 2010	
	Cost of sales	As a percentage of segment revenue	Cost of sales	As a percentage of segment revenue
Carriers' networks	14,348.7	69.9%	12,094.5	63.7%
Terminal	8,989.7	80.2%	6,039.9	77.5%
Telecommunication software systems, services and other products	3,885.8	69.4%	2,740.1	69.6%
Total	27,224.2	72.9%	20,874.5	67.9%

Unit: RMB in millions

Product segment	For the six months ended 30 June 2011		For the six months ended 30 June 2010	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Carriers' networks	6,174.3	30.1%	6,905.8	36.3%
Terminal	2,225.0	19.8%	1,750.4	22.5%
Telecommunication software systems, services and other products	1,713.1	30.6%	1,194.7	30.4%
Total	10,112.4	27.1%	9,850.9	32.1%

Cost of sales of the Group for the first half of 2011 increased by 30.4% as compared to same period last year to RMB27,224.2 million. The Group's overall gross profit margin for the first half of the year of 27.1% was 5.0 percentage points lower than the same period last year, mainly as a result of lower gross profit margin of carrier network and terminal products.

Cost of sales for the Group's carriers' networks for the first half of the year amounted to RMB14,348.7 million, 18.6% higher as compared to the same period last year. The gross profit margin for carriers' networks was 30.1% versus 36.3% for the same period last year. The decrease in the gross profit margin for carriers' networks was mainly due to a lower gross profit margin for international wireline switch and access systems as well as wireless communication systems.

Cost of sales for the Group's terminal products for the first half of the year amounted to RMB8,989.7 million, increasing by 48.8% compared to the same period last year. Gross profit margin for the Group's terminal segment was 19.8%, versus 22.5% for the same period last year, which was attributable mainly to lower gross profit margin for various domestic terminal products and a decreasing gross profit margin for international CDMA handsets, 3G handsets and data cards.

Report of the Board of Directors

Cost of sales for the Group's telecommunication software systems, services and other products for the first half of the year amounted to RMB3,885.8 million, increasing by 41.8% compared to the same period last year. The gross profit margin for telecommunication software systems, services and other products was 30.6%, compared to 30.4% for the same period last year, primarily resulting from higher gross profit margins in the domestic market but lower for the international market for video and network terminals, fixed terminals and service products.

Other income and gains

Other income and gains of the Group for the first half of 2011 amounted to RMB2,116.6 million, representing a 145.9% growth compared to RMB860.8 million for the first half of 2010, which was primarily attributable to the disposal of the equity interests in Nationz Technologies by the Company during the first half of 2011 and an increase in investment gains recognised as a result of the reclassification of outstanding unsold shares in Nationz Technologies from long-term equity investments to financial assets held for trading for accounting purposes.

Research and development costs

The Group's research and development costs for the first half of 2011 increased by 14.7% to RMB3,664.5 million from RMB3,195.3 million for the first half of 2010. The increase in research and development costs was attributable mainly to increased investments in the research and development of GSM/UMTS wireless systems, service products, core networks, etc. Our research and development costs fell 0.6 percentage point from 10.4% for the first half of 2010 to 9.8% as a percentage of operating revenue.

Selling and distribution costs

The Group's selling and distribution costs for the first half of 2011 increased by 22.6% to RMB4,983.6 million from RMB4,066.0 million for the first half of 2010, and increased by 0.1 percentage points from 13.2% to 13.3% 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 2011 increased by 10.3% to RMB1,260.4 million, as compared to RMB1,142.6 million for the first half of 2010, and decreased by 0.3 percentage points from 3.7% to 3.4% 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 2011 amounted to RMB547.4 million, a slight increase as compared to RMB543.3 million for the first half of 2010.

Profit from operating activities

The Group's profit from operating activities for the first half of 2011 slightly increased by 0.5% to RMB1,773.0 million, as compared to RMB1,764.6 million for the first half of 2010. The operating profit margin of 4.7% was 1% lower than the same period last year, primarily due to a decline in gross profit margin in the Company's products.

Finance costs

Finance costs of the Group for the first half of 2011 amounted to RMB509.7 million, increasing by 29.4% from RMB393.9 million for the first half of 2010 mainly due to an increase in bank loan interest rate.

Tax

The Group's income tax expense for the first half of 2011 was RMB436.4 million, which was 9.2% higher as compared to RMB399.6 million for the first half of 2010, reflecting higher profit from certain subsidiaries of the Group that were subject to higher tax rates, which increased the effective tax to 34.3% for the first half of 2011 from 28.7% for the first half of 2010.

Profit attributable to minority interests

The Group's minority interests for the first half of 2011 amounted to RMB67.1 million, which was 42.1% lower as compared to RMB115.8 million for the first half of 2010. Minority interests decreased from 11.7% for the first half of 2010 to 8.0% for the first half of 2011 as a percentage of profit before minority interests, reflecting mainly lower profit at subsidiaries with a higher level of minority interests.

Other comprehensive income

Other comprehensive income of the Group for the first half of 2011 increased by 98.3% to RMB-2.3 million, compared to RMB-135.1 million for the first half of 2010. The change in other comprehensive income was mainly attributable to reduced 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 2011 was 8.0 percentage points higher at 46.9% compared to 38.9% for the first half of 2010, which mainly reflected increased bank loans by the Company to fund working capitals.

Cash flow data

Unit: RMB in millions

	For the six months ended 30 June 2011	For the six months ended 30 June 2010
Net cash outflow from operating activities	(6,220.5)	(4,910.4)
Net cash outflow from investing activities	(2,183.2)	(1,117.5)
Net cash inflow from financing activities	8,434.4	4,253.6
Net increase/(decrease) in cash and cash equivalents	30.7	(1,774.3)
Cash and cash equivalents at the end of the period	14,867.5	12,285.5

Operating activities

The Group had a net cash outflow from operating activities of RMB6,220.5 million for the first half of 2011 compared to RMB4,910.4 million for the first half of 2010, reflecting year-on-year increase of cash outflow for purchases and the provision of services by RMB3,518.9 million mainly as a result of expanded sales, increase of cash outflow for payments made to employees by RMB1,056.1 million, decrease of tax payment by RMB444.0 million and increase of other cash paid in connection with operating activities by RMB918.9 million, coupled with a mild decrease of cash inflow for sales and the provision of services as compared with the same period last year and the increase of cash inflow from tax rebates by approximately RMB685.2 million.

Report of the Board of Directors

Investing activities

The net cash outflow from the Group's investment activities for the first half of 2011 was RMB2,183.2 million compared to a net cash outflow of RMB1,117.5 million for the first half of 2010, attributable mainly to cash paid for external investments by Shenzhen Zhonghe chunsheng No. 1 Equity Investment Fund Partnership Enterprise (深圳市中和春生壹號股權投資基金合伙企業) amounting to RMB716.5 million, which had been included in the Group's consolidated financial statements.

Financing activities

The Group's net cash inflow from financing activities for the first half of 2011 was RMB8,434.4 million, compared to RMB4,253.6 million for the first half of 2010, reflecting mainly cash proceeds of RMB8,427.7 million received from the Company's borrowings.

Disclosure required under the Hong Kong Stock Exchange 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 2010 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 2011

1. Business Outlook for the Second Half of 2011

Looking to the second half of 2011, the Company will be confronted with a complex market environment underpinned by opportunities as well as challenges. The rapid development of the mobile Internet will drive large-scale construction of the next-generation LTE mobile broadband network, and supplementary broadband construction is also expected to begin. In addition, the demand for better network quality will drive the construction of new 2G/3G networks and revamping of existing ones to modernised standards. As the nation continued to advance its broadband strategy, the wireline access market will embrace a new cycle of time window construction, while ICT industries such as the Internet of Things, cloud computing and mobile Internet, etc are on the brink of a new stage of transformation.

In the second half of 2011, domestic carriers are expected to speed up their capital expenditure; In the international market, mobile broadband construction and the development of smart terminals will remain some of the most sought after segments. The Company will seek to maintain a positive balance between scale and profit with the fundamental aim of sustaining stable growth in business scale. We will enhance our efforts in implementing our transformation into an operating business entity, strengthen control over expenses and strive to improve our operating efficiency.

2. Risk Exposure

(1) Interest rate risk

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

(2) Foreign exchange risk

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

(3) Risk associated with intellectual property rights

The Group has always attached great importance to product technology research and development as well as the management of intellectual property rights. We maintain our investment in technology research and development each year at about 10% of our annual sales revenue. Our research and development team is currently supported by over 20,000 employees. While the Group has adopted stringent measures to protect its intellectual property rights, there can be no assurance that there will not be any conflicts in intellectual property rights between the Company and other telecommunications equipment manufacturers, franchisee companies and carriers which partner with the Group.

(4) Credit risk

The Group provides one-stop communications solutions to its customers. With the swift expansion of its business, the Group is serving a large customer base with differing credit status, and its business will inevitably be affected by the varied credit profiles of these customers.

(5) Country risk

Under the complicated global economic and financial environment, the Group will continue to be exposed to debtors' risks, trade protection, political risks or even warfare or the succession of political regimes in countries where the Group's projects are operated. As such, a very high level of operational and risk control capabilities is required.

Material Matters

(I) CORPORATE GOVERNANCE

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

The Company has been improving its corporate governance regimes and structures, regulating corporate operations and optimising 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.

In accordance with requirements of the "Notice on the Publication of the Supplementary Guidelines for Corporate Internal Control" (《關於印發企業內部控制配套指引通知》) issued by five ministries and commissions including the Ministry of Finance of the PRC and the CSRC and the "Notice on Procuring Work relating to Trial Internal Control Rules for Shenzhen Listed Companies" (《關於做好深圳轄區上市公司內部控制規範試點有關工作的通知》) and in order to ensure the smooth implementation of "Basic Rules for Corporate Internal Control" (《企業內部控制基本規範》) and "Corporate Internal Control Supplementary Guide" (《企業內部控制配套指引》) and to publish the self-assessment report on internal control, the Company formulated the "ZTE Internal Control Development Plan and Implementation Scheme 2011" at the beginning of 2011, which was considered and passed by the Eighth Meeting of the Audit Committee of the Fifth Session of the Board of Directors and the Sixteenth Meeting of the Fifth Session of the Board of Directors of the Company. For details, please refer to the "Report of the Board of Directors" of the 2010 Annual Report of the Company.

In accordance with the work arrangements of "ZTE Internal Control Development Plan and Implementation Scheme 2011", the progress of implementation of the Company's internal control development during the first half of 2011 was as follows:

During the first quarter of 2011, an internal control project team structured in three tiers (the project steering committee, project management office and project task force) was set up with Company Chairman Mr. Hou Weigui acting as the convenor of the project steering committee. The project team confirmed the scope of implementation of internal control development in 2011. A project start-up meeting was held and team members received three days of specialised training in internal control. The start-up process for internal control development was completed to provide a solid foundation for subsequent work in process streamlining and self-inspection of internal control. For details of implementation during the first quarter, please refer to the in the "Report of the Board of Directors" of the 2011 first quarterly report of the Company.

Progress in the second quarter of 2011:

(1) Risk types streamlined and risk checklist formulated

In early April 2011, the project management office conducted detailed analysis of 18 application guidelines and streamlined 187 risk types in the guidelines with the formulation of a risk checklist, which was used to develop control activities corresponding to risks during process streamlining.

(2) *Mirroring between application guidelines and corporate system documents developed*

In the working draft of “Process Description” in internal control, the project team developed the mirroring relationship between corporate system documents and application guidelines by studying such corporate system documents and streamlining the corresponding descriptions of sub-processes in the application guideline. As at 30 June 2011, process descriptions corresponding to 18 application guidelines had been completed.

(3) *Responsible departments for control points confirmed*

The project team incorporated descriptions of control activities and confirmed responsible departments for various control points by communicating with departments relevant to the control activities. In the working draft of “risk control matrix” for internal control development, the project team streamlined relevant control points. As at 30 June 2011, “risk control matrix” corresponding to 18 application guidelines had been completed.

(4) *Internal control deficiency identification standards formulated*

The Audit Department and internal control project management office conducted numerous discussions on the identification standards for internal control deficiencies and completed a preliminary draft of internal control deficiency identification standards in late April 2011, which included quantitative standards and qualitative standards. We will continue to discuss and finalise the draft with the accountant firm responsible for internal control audit.

(5) *Self-inspection of internal control started*

Self-inspection of internal control was performed by extracting walk-through test information on the basis of descriptions of various business processes. The self-inspection results were recorded in the “risk control matrix” and a “detailed report of internal control deficiencies” was drawn up to record any internal control deficiencies identified. As at 30 June 2011, self-inspection of internal control had been completed in respect of all business processes, with the exception of certain sub-processes.

(6) *Plan for self-assessment on internal control confirmed*

The Audit Department of the Company set up an internal control self-assessment working team in mid-May 2011 and defined job responsibilities. The working team formulated an internal control self-assessment plan in late June 2011 and planned to complete system testing by 15 September 2011 and manual testing by 30 September 2011.

(7) *Analysis of differences in the progress of internal control development*

The Company planned to complete self-inspection on internal control during the period from April to June 2011. As certain business processes were optimised in June 2011, we needed to obtain supplementary information on walk-through tests in respect of those revised processes. As a result, there were certain sub-processes for which self-inspection on internal control had not completed as at 30 June 2011. Save for the above, the progress of other internal control work development in the second quarter of 2011 was consistent with the original work plan.

Material Matters

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

3. **Securities Transactions by Directors**

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

4. **The Audit Committee**

The Audit Committee of the Company has discussed with the management the accounting standards and practices adopted by the Group, and has also discussed and reviewed the report, including the financial statements of the Group for the six months ended 30 June 2011.

(II) IMPLEMENTATION OF THE 2010 PROFIT DISTRIBUTION PROPOSAL OF THE COMPANY

The plan of profit distribution and capitalisation of the capital reserve for 2010 was considered and passed at the 2010 Annual General Meeting held on 17 May 2011 and implementation had been completed. The Company made a profit distribution RMB3 for every 10 shares (including tax) in cash based on a share capital of 2,804,324,498 shares, namely total share capital of 2,866,731,684 shares (comprising 2,342,077,146 A shares and 524,654,538 H shares) as at the record date less 62,407,186 restricted shares under the share incentive scheme; and a bonus issue of 2 shares for every 10 shares based on a share capital of 2,866,731,684 shares, namely total share capital of 2,866,731,684 shares (comprising 2,342,077,146 A shares and 524,654,538 H shares) as at the record date. The record date was 6 July 2011 and the ex-rights/ex-dividend date was 7 July 2011, for A shares. In respect of H shares, the record date was 15 April 2011, and the dividend payment date was 7 July 2011. The date on which new A shares not subject to lock-up were listed and the dealing of bonus H shares commenced was 7 July 2011. For details, please refer to the relevant announcement of the Company published by the Company on 30 June 2011.

(III) PROFIT DISTRIBUTION PROPOSAL AND PROPOSAL FOR SHARE CAPITAL INCREASE BY WAY OF TRANSFER FROM RESERVES FOR THE SIX MONTHS ENDED 30 JUNE 2011

The Company does not propose any profit distribution or share capital increase by way of transfer from reserves for the six months ended 30 June 2011.

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

1. Overview of the bonds cum warrants of the Company

The Company issued 40,000,000 bonds with warrants (“Bonds cum 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. A coupon interest rate of 0.8% per annum applies to the issue of the Bonds cum Warrants, accruable from the issue date (30 January 2008).

Three interest payments were made in respect of the bond issue on 30 January 2009, 30 January 2010 and 31 January 2011, respectively. Thereafter interest payments will be made on 30 January of each year. The maturity of the bonds is 30 January 2013.

A total of 65.20 million warrants were listed on the Shenzhen Stock Exchange on 22 February 2008. The warrants, coded “中興 ZXC1”, was valid from 22 February 2008 to 21 February 2010. The last trading day for “中興 ZXC1” was 5 February 2010 (Friday) and trading was terminated with effect from 8 February 2010 (Monday). Holders of “中興 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.

As at the close of trading on 12 February 2010, a total of 23,348,590 “中興 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 “中興 ZXC1” Warrants had not been exercised and had lapsed. Following the exercise of the “中興 ZXC1” Warrants, the Company’s A share capital increased by 21,523,441 shares, raising proceeds of approximately RMB912 million. For details, please refer to the “Announcement on the Results of the Exercise of the “中興 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.

3. Top Ten Bond Holders and Their Holdings

As at 30 June 2011, 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	China Petroleum Finance Company Limited	4,114,207	10.29
3	China Life Insurance Company Limited	3,678,666	9.20
4	Taikang Life Insurance Co., Ltd.	3,655,350	9.14
5	Haitong-BOC-Fortis Bank	3,310,880	8.28
6	Sino Life Insurance Co., Ltd. — Traditional — General Insurance Products	2,422,890	6.06
7	Ping An Life Insurance Company of China, Ltd.	1,737,880	4.34
8	China National Petroleum Corporation — Corporate Annuity Plan — ICBC	1,688,698	4.22
9	PICC Health Insurance Company Limited-Universal Life Insurance	1,400,000	3.50
10	China Pacific Insurance (Group) Co., Ltd.	1,286,327	3.22

Material Matters

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 74.32% 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. 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 2010. The use of proceeds from the Company's issue of Bonds cum Warrants is discussed in the section headed "(II) Management Discussion and Analysis Prepared in accordance with PRC ASBEs - 9(1) Use of proceeds during the reporting period" in "IV. Report of the Board of Directors" of this report.

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

At the Twentieth Meeting of the Fifth Session of the Board of Directors of the Company held on 8 July 2011, the “Resolution on the Third 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 Third Unlocking of the Subject Shares under the First Award of the Company had been fulfilled and that 3,199 Scheme Participants under the First Award had satisfied conditions for the Third Unlocking of Subject Shares under the Phase I Share Incentive Scheme, and proposed to unlock a total of 60,532,063 shares. For details, please refer to the “Announcement of Resolutions of the Twentieth Meeting of the Fifth Session of the Board of Directors” published by the Company on 8 July 2011.

On 19 July 2011, 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 Third unlocking of the Subject Shares in the First Award under the Phase I Share Incentive Scheme was completed, with a total of 60,532,063 Subject Shares being unlocked, accounting for 1.76% of the total share capital of the Company. The date of listing and circulation of Subject Shares subsequent to the release of restrictions was 21 July 2011 (Thursday). For details please refer to the “Announcement of the Completion of the Third Unlocking of Subject Shares under the First Award of the Phase I Share Incentive Scheme” published by the Company on 19 July 2011.

The impact of the Phase I Share Incentive Scheme of the Company on the Company’s financial conditions and operating results for the reporting period and future periods is discussed in further detail in Note VII to the financial statements prepared under PRC ASBEs.

(VI) SELL-DOWN SHAREHOLDERS HOLDING MORE THAN 30% OF THE SHARES IN THE COMPANY DURING THE REPORTING PERIOD

Zhongxingxin, the controlling shareholder of the Company, sold 48,495,000 A shares in the Company (representing 1.69% of the total share capital of the Company) on 13 June 2011 via the securities trading system of Shenzhen Stock Exchange. Following the sell-down, Zhongxingxin was interested in 881,826,620 shares in the Company, accounting for 30.76% of the total share capital of the Company. For details, please refer to the “Announcement on Sell-down by Shareholders” published by the Company on 13 June 2011.

Zhongxingxin has undertaken that any share disposal by it via the securities trading system during the consecutive six-month period starting from the date of the aforesaid sell-down will be no more than 5% of the total number of shares of the Company. Throughout the reporting period, Zhongxingxin had honoured its undertaking.

Material Matters

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

During the reporting period, the Group did not incur any material litigation or arbitration. Progress during the reporting period of immaterial litigation and arbitration proceedings incurred prior to and other litigation and arbitration proceedings incurred during the reporting period under review are as follows:

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

Following negotiations between the Group and the Rawalpindi Collectorate of Customs, the Rawalpindi Collectorate agreed in June 2007 that the fine might be exempted if the Pakistanis Subsidiary made a remedial tax payment of PKR177 million before 30 June 2007. Such payment had been made by the Pakistanis Subsidiary before 30 June 2007. Subsequently, the Rawalpindi Collectorate of Customs issued a notice to the Pakistanis Subsidiary demanding the payment of an addition tax amount of approximately PKR62 million (approximately RMB4,675,000). The Pakistanis Subsidiary appealed to the Customs Appellate Court against such demand.

On 15 March 2011, Customs Appellate Court of Islamabad ruled that the Pakistanis Subsidiary should not be required to pay the tax amount in dispute of PKR62 million (approximately RMB4,675,000). Currently the judgement has taken effect.

2. In August 2010, a U.S. company filed a lawsuit with a district court in California against the Company and its subsidiaries, claiming that the Company and its subsidiaries had infringed the claimant's copyright by downloading and using software developed by the claimant without permission and demanding the Company and its subsidiaries to stop such infringement and compensate the claimant's losses, although the amount of such compensation demanded was not specified in the claim by such U.S. company. The Company has appointed a U.S. law firm to represent it in the case and has filed a response to the court.

On 13 May 2011, the U.S. company applied to the Californian court for summary judgement in respect of the case. On 14 June 2011, the Californian court issued a summary judgement which ruled that the Company had violated provisions on applicable assessment periods contained in the software click license agreement between the Company and such U.S. company and had therefore breached the agreement.

On 5 August 2011, the U.S. company reached a settlement with the Company. The Company agreed to pay a total of USD9.75 million in settlement and licensing fees to the U.S. company over a period of three years, in consideration of the US company granting the Company the right to use all its commercial software in the next three years. On 5 August 2011, the court ruled to repeal the case in accordance with the law.

3. A lawsuit on breach of agreement and infringement was instituted against the Company and its subsidiary ZTE (USA), Inc. ("ZTE (USA)") at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE (USA) had violated a confidential agreement between Universal Telephone Exchange, Inc. (UTE) and ZTE (USA), for which UTE was seeking a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract as a result of inappropriate actions of the Company and ZTE (USA), for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, the Company's attorney filed a written response to the court generally denying UTE's charges against the Company and ZTE (USA). Meanwhile, the Company's attorney also disputed the jurisdiction of the said U.S. court over the Company. On 8 February 2011, UTE filed a Discovery Request in respect of the Company and ZTE (USA) in response to the dissent on jurisdiction raised by the Company, and the court gave permission to UTE to require the Company to comply with investigations relating to the issue of legal jurisdiction.

Upon due enquiries, it came to the knowledge of our attorney that UTE's business license in Texas was terminated on 21 May 2010. On this basis, our attorney disputed the Discovery Request filed by UTE and applied to the court for the lawsuit to be dismissed on the grounds that UTE's business license in Texas was terminated on 21 May 2010 and, therefore, according to Texan laws, UTE had no right to institute lawsuits in Texas or to require the Company to disclose any relevant information. The aforesaid legal documents were served on UTE on 21 March 2011. On 29 March 2011, UTE filed a written response to the dissent of ZTE (USA), pleading the court to reject ZTE (USA)'s dissent and to rule in favour of UTE's rights to institute relevant legal actions. The case is currently pending court trial.

The Company will publish timely announcements to disclose any substantial progress of the aforesaid arbitration and litigation.

4. On 7 April 2011, the Company published the "Announcement on Litigation" in relation to the lawsuit filed by Telefonaktiebolaget LM Ericsson (publ) ("Ericsson") against ZTE (UK) LIMITED ("ZTE (UK)"), a wholly-owned subsidiary of the Company, in respect of the alleged infringement on Ericsson's patent technologies by several handset models of ZTE (UK). A demand was made on ZTE (UK) to discontinue such act of infringement and compensate for Ericsson's losses, although no specific amount of compensation was raised by Ericsson in the statement of claim. The Company submitted a response on 20 June 2011 and the case is currently pending trial to be scheduled by the court.

On 1 April 2011, Ericsson applied to the Court of Rome for provisional injunction procedures against ZTE Italy S.r.l. ("ZTE Italy"), the subsidiary of ZTE in Italy, requesting the court to make a unilateral ruling. Such request was rejected by the court, which ordered Ericsson to serve a claim on ZTE Italy. ZTE Italy has submitted its defense to the court, requesting the court to reject the litigation claim of the claimant. As at the end of the reporting period, the ruling of the court had not been officially served upon the two parties.

On 14 April 2011 and 23 May 2011, Ericsson filed lawsuits against ZTE Deutschland GmbH ("ZTE Deutschland"), a wholly-owned subsidiary of the Company, with the district court of Dusseldorf and the district court of Mannheim in Germany, respectively, alleging infringement of Ericsson's patent technologies and demanding ZTE Deutschland to discontinue such act of infringement and compensate for Ericsson's losses. The local courts have initially estimated the amount in dispute in this case at EUR10.80 million and EUR2.275 million, respectively. ZTE Deutschland is currently preparing for its defense.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the existing judgements and current progress of the case, it is difficult to ascertain the final outcome of this case at the present stage. The Directors are of the view that the aforesaid case will not have any material and adverse impact on the financial conditions and results of operation of the Group for the current period.

Material Matters

5. On 28 April 2011, the Company and ZTE France SASU ("ZTE France"), a wholly-owned subsidiary of the Company, received a statement of claim from the High Court of Paris, according to which a lawsuit has been filed by Huawei Technologies Co. Ltd. ("Huawei"), claiming that the data card products of the Company and ZTE France have infringed upon its patent and demanding the Company and ZTE France to discontinue such act of infringement and pay damages in the amount of EUR500,000. The first hearing of the case has been scheduled for 12 October 2011, and the Company is required to submit a brief defense by 10 October 2011. We are currently in active preparation for the defense. As the Company is no longer selling the products involved in this case, the litigation will not have any substantial impact on the local sales of the Company.

On 9 May 2011, ZTE Deutschland, a wholly-owned subsidiary of the Company, received a provisional injunction order against ZTE Deutschland in respect of "labelled data cards" awarded by the District Court of Hamburg, Germany based on an application by Huawei, which order had been forwarded to the Company by Huawei's attorney. For details please refer to the "Announcement on Litigation" of the Company dated 12 May 2011. This provisional injunction order will not have any impact the current business of the Company. On 27 June 2011, ZTE Deutschland received a statement of claim served by the District Court of Hamburg, Germany, pursuant to which Huawei officially filed a lawsuit of trademark infringement in respect of "labelled data cards" with the court. Currently, ZTE Deutschland is preparing for its defense.

On 13 May 2011, Huawei filed a statement of claim with the court of Dusseldorf, Germany against ZTE Deutschland, a wholly-owned subsidiary of the Company, and the Company for infringement of its patent rights. The amount in dispute for this case was estimated by Huawei at EUR 1 million. ZTE Deutschland is currently preparing for its defense, which has been scheduled for 30 November 2011.

6. On 5 April 2011, a certain carrier of Ecuador filed an application for arbitration with the Business Arbitration Tribunal of Guayaquil, Ecuador, claiming quality problems existed in the works performed by the Company and demanding a total compensation amount of USD23.35 million from the Company, comprising USD22.25 million as reimbursement of the cost of network reconstruction and USD1.10 million as the cost for supervising and managing construction work quality of the entire network. The legal counsel engaged by the Company has submitted a defense in a timely manner to deny all allegations made by the carrier. Based on the legal opinion furnished by the legal counsel engaged by the Company, the Directors are of the view that the aforesaid case will not have any material and adverse impact on the financial conditions and results of operation of the Group for the current period.
7. On 29 July 2011, the Company and ZTE USA, the Company's subsidiary in the United States, received a statement of claim filed by a certain U.S. company, simultaneously with the International Trade Commission (ITC) and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and its US subsidiary of infringement upon its 3G patent rights. Defendants in this case included other companies. In the ITC case, This U.S. company demanded the issue of a permanent exclusion order and injunction that would prevent our terminal products from entering the United States. In the case filed with the District Court, damages for losses and payments of attorney fees were also demanded of the defendants, in addition to the plea for injunction, although no specific amount of compensation was named.

The Company will vigorously defend the case by adopting effective measures. Timely announcements will be made to report any substantial progress of the litigation.

(VIII) INVESTMENT IN SECURITIES**1. Investment in securities by the Company at the end of the reporting period:**

Unit: RMB 10 thousands

Type of securities	Stock code	Stock name	Initial investment	Shares held at the end of the period (10 thousands shares)	Nominal value at the end of the period	Percentage of total investment in securities at the end of the period	Profit and loss in the reporting period
Stock	300077	Nationz Technologies	2,025	3,672	96,904	100%	61,429
Other investment in securities held in the period			—	—	—	—	—
Profit and loss from sales of investment in securities in the reporting period			—	—	—	—	29,158
Total			2,025	3,672	96,904	100%	90,587
Session of the Board approving investment in securities, announcement date and number					Not applicable		
Session of the Board approving investment in securities, announcement date and number					Not applicable		

2. Details in investment in securities

Nationz Technologies, the company with our equity investment, issued its shares under initial public offering which was listed on the GEM Board of the Shenzhen Stock Exchange on 30 April 2010. On 28 April 2011, Nationz Technologies announced that a period of 12 months had lapsed since its IPO listing. The 54,400,000 shares in Nationz Technologies held by the Company (after the implementation of the 2010 profit distribution and capitalisation of capital reserve plans of Nationz Technologies) would be available for listing and circulation as from 3 May 2011. Pursuant to the “Resolution on the Proposed Disposal of Shares in Nationz Technologies, Inc.” passed at the Nineteenth Meeting of the Fifth Session of the Board of Directors of the Company held on 17 May 2011, the disposal of shares in Nationz Technologies at an appropriate timing and a reasonable price range was approved.

From 24 May 2011 to 24 June 2011, the Company disposed of a total of 17,680,000 shares in Nationz Technologies. As at the end of the reporting period, the Company currently holds 36,720,000 shares in Nationz Technologies (accounting for 13.50% of the total share capital of Nationz Technologies), all of which are unrestricted circulating shares. As the Company no longer exercises significant influence over the operating activities of Nationz Technologies, the outstanding unsold shares, previously accounted for as long-term equity, have been reclassified as financial assets held for trading for accounting purposes.

For details, please refer to the relevant announcements published by the Company on 27 April, 17 May, 30 May, 14 June, 16 June and 23 June 2011, respectively.

Material Matters

(IX) EXECUTION OF SYNDICATE LOAN AGREEMENT

With a view to further optimising the long-term and short-term debt structure the Company and the subsidiaries included in its consolidated financial statements, minimising its exposure to assets and liabilities denominated in foreign currencies and meeting additional working capital requirements of the Company's medium/long-term development at appropriate finance costs, the Company proposes to seek medium/long-term debt financing with ZTE (H.K.), a wholly-owned subsidiary of the Company, as the principal.

On 8 July 2011, ZTE (H.K.) (as borrower) entered into a USD900 million syndicate loan agreement with 10 international banks including BOCHK (as mandated leading arranger). In view of the current financial conditions and credit rating of ZTE (H.K.), the Company will provide guarantee in relation to the aforesaid debt financing of ZTE (H.K.), in order to secure debt financing at favourable costs. The Company (as guarantor) entered into a guarantee agreement with BOCHK on 8 July 2011 to provide guarantee in favour of the loan syndicate to assure proper fulfillment of payments and all duties of ZTE (H.K.) under the syndicate loan agreement. In addition, to avoid interest rate risks associated with the aforesaid debt financing, ZTE (H.K.) proposed to carry out an interest rate swap with a nominal amount of not more than USD900 million at an appropriate timing. The aforesaid matters are approved by the Seventeenth Meeting of the Fifth Session of the Board of Directors and the 2010 Annual General Meeting of the Company. For details, please refer to the relevant announcements of the Company dated 8 April 2011, 17 May and 8 July 2011, respectively.

(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 first half of 2011 included fixed income derivatives and value-protection derivatives. The major risks and control measures are discussed as follows:

1. Market risks: For fixed-income derivatives, gains were recognised at maturity. Gains or losses arising from the change in fair value as a result of differences in domestic and overseas forward quotations during the investment period are accounted for as variable gains or losses, which will not affect the ultimate gains of the derivatives. Gains or losses arising from the difference between the exchange rate for settlement of value-protection derivative investment contracts and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the value-protection derivative investments. Effective gains or losses shall be represented by the cumulative gains or losses on revaluation on the maturity date;
2. Liquidity risks: Fixed-income derivative investments are based on the foreign exchange payments for imports. The product did not effectively require the appropriation of available funds and therefore presented minimal liquidity risks. The value-protection derivatives investments of the Company were based on the Company's budget of foreign exchange income and expenditure and these investments matched the Company's actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their effect on the Company's current assets was relatively small;
3. Credit risks: The counterparties of the derivative investment trades of the Company are banks with sound credit ratings and long-standing business relationships with the Company and therefore the transactions were basically free from performance risks;
4. Other risks: Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives may result in operational risks in actual operation; Obscure terms in the trade contract may result in legal risks;
5. Control measures: The Company addressed legal risks by entering into contracts with clear and precise terms with counterparty banks and strictly enforcing its risk management system. The Company has formulated the "Risk Control and Information Disclosure System relating to Investments in Derivatives" that contains specific provisions for the risk control, review procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments will be duly controlled.

Material Matters

<p>Market prices or fair value change of invested derivatives during the reporting period, including the specific methods, assumptions and parameters adopted in the analysis of the fair values of the derivatives</p>	<p>The gains from investments in derivatives during the reporting period have been recognised by the Company. Total gains recognised for the reporting period amounted to RMB72.61 million, comprising exchange gains of RMB60.50 million, losses from fair-value change of RMB54.42 million and recognized investment gains of RMB66.53 million. The calculation of the fair value was based on forward exchange rates quoted by Reuters or the counterparty bank on a balance sheet date in line with the maturity date of the product.</p>
<p>Statement on whether the accounting policy and accounting audit principles for derivatives for the reporting period were significantly different from the previous reporting period</p>	<p>There was no significant change in the Company's accounting policy and accounting audit principles for derivatives for the reporting period as compared to that of the previous reporting period.</p>
<p>Specific opinion of Independent Directors, sponsors or financial advisors on the Company's derivative investments and risk control</p>	<p>Independent Directors' Opinion: The Company conducted fixed-income derivative investments based on due USD payables to offset exchange losses arising from the appreciation of RMB by obtaining low-risk fixed income. The Company conducted value protection derivative investments by using financial products to enhance its financial stability, so as to mitigate the impact of exchange-rate volatility on its assets, liabilities and profitability. The Company has conducted stringent internal assessment of its derivative investments made and has established corresponding regulatory mechanisms with dedicated staff. The counterparties with which the Company and its subsidiaries enter into contracts for derivative investments are organisations with sound operations and good credit standing. We are of the view that the derivative investments made by the Company and its subsidiaries are closely related to their day-to-day operational requirements and in compliance with relevant laws and regulations.</p>

Positions in Derivative Investments at the end of the Reporting Period

Unit: RMB in thousands

Type of contract ^{Note 1}	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 <small>Note 2</small>
Fixed income derivatives	4,473,943	4,458,908	82,456	19.34%
Value protection derivatives	1,968,858	2,488,261	(9,850)	10.79%
Total	6,442,801	6,947,169	72,606	30.13%

Note 1: Contracts are classified according to the different purposes of derivative investments and accounting treatments of such derivative investments.

Note 2: The net asset value of the Company as at the end of the reporting period is based on equity attributable to shareholders of the parent company at the end of the period.

(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 2011 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 announcements "Continuing Connected Transaction – Lease Agreement," "Continuing Connected Transaction" and "Continuing Connected Transaction" published by the Company on 23 October 2008, 27 October 2009 and 27 April 2010 respectively.

Material Matters

Classification	Member of the Group (party to connected transaction)	Connected person (counterparty to connected transaction)	Subject matter	Pricing basis	Transaction price	Amounts of transactions for six months ended 30 June (excluding VAT)	As a percentage of transactions in the same	Settlement	Whether different from estimated conditions
						(RMB10,000)	classification		
Purchase of raw materials	Shenzhen ZTE Kangxun Telecom Company Limited	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited and subsidiaries	Various products such as cabinets, cases, distribution frames, flexible 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.	25,313.29	1.14%	Commercial 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.	13,184.92	0.59%	Commercial acceptance bill	No
Property leasing	ZTE Corporation	Shenzhen Zhongxing Development Company Limited (lessor)	Property located at 19 Huayuan East Road, Haidian District, Beijing with a leased area of 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)	2,029.12	7.04%	Tele-transfer	No
		Chongqing Zhongxing Development Company Limited (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)	238.67	0.83%	Tele-transfer	No

- The Group did not enter into any connected transactions relating to any material acquisition or disposal of assets during the reporting period.
- The debtors and creditors between the Group and connected parties during the reporting period represented balances arising from ordinary business transactions that did not have any material impact on the Group. There were no connected guarantees between the Group and its connected parties during the reporting period.
- There was no misappropriation of the Company's funds by its controlling shareholder, its subsidiaries and other connected parties during the reporting period, and there were no connected transactions involving the provision of funds to any connected parties by the Company or to the Company by any connected parties.

(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
Total amount of third-party guarantee approved during the reporting period (A1)		0		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)		RMB69,414,800		Total amount of third-party guarantee actually incurred as at the end the reporting period (A4)				RMB69,414,800

Material Matters

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 2}	17 August 2007, 200738	USD105 million	8 November 2007	USD8.405 million	Guarantee by pledge	7.5 years	No	No
Closed Joint-Stock Company CJSC TK Mobile ^{Note 3}	12 May 2009, 200917	USD70.60 million	N/A	—	Guarantee by pledge	—	No	No
PT. ZTE Indonesia ^{Note 3}	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 3}	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 4}	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 4}	13 November 2009, 200945	USD3 million	31 December 2009	INR6,848,100	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 (H.K.) Limited ^{Note 5}	9 April 2011, 201112	USD900 million	8 July 2011	USD900 million	Joint liability assurance	From the date on which the Guarantee takes effect till the date falling 60 months after the date of the Facility Agreement	No	No
Total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1)		USD900 million		Total amount of guarantee on behalf of subsidiaries actually incurred during the reporting period (B2)				—
Total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3)		RMB7,485,052,600		Total amount of guarantee on behalf of subsidiaries actually incurred as at the end the reporting period (B4)				RMB560,164,700
Total amount guaranteed by the Company (sum of the two categories aforesaid)								
Total amount of guarantee approved during the reporting period (A1+B1)		USD900 million		Total amount of guarantee actually incurred during the reporting period (A2+B2)				—
Total amount of guarantee approved as at the end of the reporting period (A3+B3) ^{Note 1}		RMB7,535,052,600		Total amount of guarantee actually incurred as at the end the reporting period (A4+B4) ^{Note 1}				RMB610,164,700
Total guaranteed amount as a percentage of net assets of the Company (A4+B4)						2.65%		
Including:								
Amounts of guarantees provided on behalf of shareholders, effective controllers and their connected parties (C)						—		
Amount of debt guarantee provided directly or indirectly on behalf of parties with a gearing ratio exceeding 70% (D)						RMB560,164,700		
Amount of total guarantee exceeding 50% of net assets (E)						—		
Aggregate amount of the three guarantee amounts stated above (C+D+E)						RMB560,164,700		
Statement on potential joint liability involved in outstanding guarantees						N/A		

- Note 1: Guarantee provided by ZTE H.K., a wholly-owned subsidiary of the Company, in the form of a standby letter of credit backed by its bank credit facility, while the bank credit facility of ZTE H.K. 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 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 3: 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. 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 not yet been performed as the relevant agreement has not yet been signed.
- Note 4: 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 Indian local bank to the Indian local 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 5: On 8 July 2011, ZTE (H.K.), a wholly-owned subsidiary of the Company, entered into a USD900 million syndicate loan agreement with 10 international banks including Bank of China (Hong Kong) Limited ("BOCHK"). On 8 July 2011, the Company entered into a guarantee agreement with BOCHK to provide guarantee by way of joint liability assurance for an amount of not more than USD900 million in respect of the syndicate loan for ZTE (H.K.). The period of guarantee shall commence on the date on which the guarantee becomes effective and ends on the date which is 60 months after the date of the syndicate loan agreement. The aforesaid guarantee was considered and passed at the Seventeenth Meeting of the Fifth Session of the Board of Directors held on 8 April 2011. As the gearing ratio of ZTE (H.K.) is above 70%, the aforesaid guarantee was submitted to the 2010 Annual General Meeting of the Company held on 17 May 2011 and was considered and approved.
- Note 6: Guaranteed amounts denominated in Indian Rupee (INR) are translated at the exchange rate of 1 Indian Rupee to RMB0.1440 (being the book exchange rate of the Company on 30 June 2011). Guaranteed amounts denominated in US dollars are translated at the exchange rate of USD1 to RMB6.4716 (being the book exchange of the Company on 30 June 2011).
- 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.

Material Matters

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 2011 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. **Performance of material contracts entered into during or prior to the reporting period:**

During the reporting period, the Group has not entered into material contracts required to be disclosed. Performance of material contracts entered into prior to and subsisting during the reporting period is set out as follows:

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	Under normal progress
2	GSM Phase II project contract with Ethiopian Telecommunications Corporation	20 September 2007	Shanghai Securities News	Under normal progress
3	Network Supply Agreement and Managed Service Agreement with Cell C (PTY) LTD., a South African mobile telecommunications operator, and its controlling shareholder OGER TELECOM (SOUTH AFRICA) (PTY) Limited	27 January 2010		Under normal progress

(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 the Company	Hong Kong	March 2011	2010 annual results presentation	Analysts and investors	2010 annual report	Published announcements and regular reports
	Shenzhen	March 2011	Teleconference	Analysts and investors	2010 annual report	Published announcements and regular reports
	Shenzhen	April 2011	Teleconference	Analysts and investors	2011 first quarterly report	Published announcements and regular reports
	Shenzhen	May 2011	Analysts' Forum	Analysts	Day-to-day operations of the Company	Published announcements and regular reports
External meetings	Shanghai	January 2011	UBS investors' meeting	Customers of UBS	Day-to-day operations of the Company	Published announcements and regular reports
	Beijing	January 2011	Deutsche Bank investors' meeting	Customers of Deutsche Bank	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	March 2011	Orient Securities investors' meeting	Customers of Orient Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	April 2011	China Securities investors' meeting	Customers of China Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	May 2011	Morgan Stanley investors' meeting	Customers of Morgan Stanley	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	May 2011	Nomura Securities investors' meeting	Customers of Nomura Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Sanya	June 2011	Sinolink Securities investors' meeting	Customers of Sinolink	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	June 2011	Everbright Securities investors' meeting	Customers of Everbright Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	June 2011	CICC investors' meeting	Customers of CICC	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	June 2011	Haitong Securities investors' meeting	Customers of Haitong Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	June 2011	Essence Securities interim strategy meeting	Customers of Essence Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	June 2011	Orient Securities investors' meeting	Customers of Orient Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	June 2011	Galaxy Securities investors' meeting	Customers of Galaxy Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Chongqing	June 2011	Changjiang Securities annual strategy meeting	Customers of Changjiang Securities	Day-to-day operations of the Company	Published announcements and regular reports

Material Matters

Nature	Location	Date	Mode	Audience received	Contents of discussion	Materials furnished
Company visits by analysts	Company	First half of 2011	Verbal	Overseas investors		
				Samsung Securities, Mitsui Sumitomo, Lansdowne, Alliance Bernstein, F&C Asset Management, Mitsubishi USA, UBS Asset Management, Mirae Asset, First State Investment Management, Fortress Investment Group, Cathay Life, Matrix Group, AVIVA, UOB, UBS, AMP Capital, JP Morgan Asset Management, ASPOMA Asset Management, JP Morgan, Barclays Capital, Ticonderoga Securities, Cavalry, Sumitomo Mitsui AM Co Ltd, Nissay Asset Management (Tokyo), BNP, CLSA, Taurus associates, Bluepool Capital, Mizuho Securities, AMERICAN CENTURY, Sampo Japan, Invesco Perpetual, Mondrian Investment Partners Limited, Pelargos Capital B.V., Nomura AM, Zeal Asset Management, PJ, Putnam, Samsung Asset	Day-to-day operations of the Company	Published announcements and regular reports
	Company	First half of 2011	Verbal	Domestic investors		
				CITIC Securities, Chongyang Investment, China Universal Asset Management, Yinhua Fund, Great Wall Fund, UBS SDIC, New China Fund, Lombarda China Fund, China Post Fund, Morgan Stanley Huaxin Funds, China Merchants Fund, United Securities, Nikko Assets, Southern Fund, Shenyin & Wanguo, Guotai Jun'an, Everbright Securities, Invesco Great Wall, Galaxy Securities, Jiashi Funds, Changsheng Fund, CICC, Hua Chuang Securities, Minsheng Securities, China Jiayin Investment Securities, Taikang Assets, Dacheng Fund, AVIC Securities, Guosen Securities, Manulife Teda Fund, 上海慶華投資發展, Greenwood's Asset Management, Alpha Investment, Boshi Fund, 上海新永溢, Hua An Fund, Solar Insurance Group, First Capital, American International Assurance, BOCI, 建信集團, 新思哲投資, 尚誠投資, Guangfa Fund, Dongwu Investment Fund, 華西資產, Bao Ying Fund, Everbright Pramerica Fund, Changjiang Pension Insurance, Minsheng Royal Fund, Rongtong Fund, Prime Capital Management, Elegant Investment	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 sell down of shares**

On 13 June 2011, Zhongxingxin, the controlling shareholder of the Company, disposed of 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 sell down of shares and its performance, please refer to the paragraph headed "(VI) Sell-down shareholders holding more than 30% of the shares in the Company during the reporting period" under this "Material Matters" section.

2. **There were no other undertakings by the Company and directors, supervisors, senior management and shareholders and de facto controllers interested in 5% or more of the shares in the Company.**

Material Matters

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

Date	Newspaper	Page No.	Announcement
25 January 2011	China Securities Journal	B009	Announcement of Interest Payment of “中興債1” of the Company
	Shanghai Securities News	B24	
	Securities Times	D29	
28 January 2011	China Securities Journal	A09	Preliminary Financial Data for the Year 2010
	Shanghai Securities News	B16	
	Securities Times	D24	
16 February 2011	China Securities Journal	B009	Announcement on Approval Received for the Establishment of a Group Finance Company
	Shanghai Securities News	B32	
	Securities Times	B4	
18 March 2011	China Securities Journal	B014	Announcement of Resolutions of the Sixteenth Meeting of the Fifth Session of the Board of Directors
	Shanghai Securities News	B35	
	Securities Times	D69	
18 March 2011	China Securities Journal	B013	2010 Annual Report Summary
	Shanghai Securities News	B35	
	Securities Times	D69	
18 March 2011	China Securities Journal	B014	Announcement of External Investment
	Shanghai Securities News	B35	
	Securities Times	D69	
18 March 2011	China Securities Journal	B014	Announcement On the Application for Derivative Investment Limits of 2011
	Shanghai Securities News	B35	
	Securities Times	D69	
18 March 2011	China Securities Journal	B014	Notice of the Annual General Meeting of 2010
	Shanghai Securities News	B35	
	Securities Times	D69	
18 March 2011	China Securities Journal	B014	Announcement of Resolutions of the Eighth Meeting of the Fifth Session of the Supervisory Committee
	Shanghai Securities News	B35	
	Securities Times	D69	
8 April 2011	China Securities Journal	B012	Announcement on Litigation
	Shanghai Securities News	B62	
	Securities Times	D16	
9 April 2011	China Securities Journal	B008	Announcement of Resolutions of the Seventeenth Meeting of the Fifth Session of the Board of Directors
	Shanghai Securities News	51	
	Securities Times	B20	
9 April 2011	China Securities Journal	B008	Announcement on the Provision of Guarantee for a Wholly Owned Subsidiary
	Shanghai Securities News	51	
	Securities Times	B20	
9 April 2011	China Securities Journal	B008	Announcement on the Proposed Interest Rate Swap Transactions by a Wholly-owned Subsidiary
	Shanghai Securities News	51	
	Securities Times	B20	
12 April 2011	China Securities Journal	A48	Supplemental Notice on the ex Tempore Motion at the Annual General Meeting of 2010
	Shanghai Securities News	B16	
	Securities Times	D8	
20 April 2011	China Securities Journal	B015	2011 First Quarterly Report
	Shanghai Securities News	B49	
	Securities Times	D64	
28 April 2011	China Securities Journal	B005	Indicative Announcement on the Convening of 2010 Annual General Meeting
	Shanghai Securities News	B155	
	Securities Times	D16	

Date	Newspaper	Page No.	Announcement
28 April 2011	China Securities Journal Shanghai Securities News Securities Times	B005 B155 D16	Announcement on Unlocking of restricted shares in Nationz Technologies Inc.
13 May 2011	China Securities Journal Shanghai Securities News Securities Times	B005 B8 D5	Announcement on Litigation
18 May 2011	China Securities Journal Shanghai Securities News Securities Times	A21 B11 D11	Announcement of Resolutions of the Annual General Meeting of 2010
18 May 2011	China Securities Journal Shanghai Securities News Securities Times	A21 B11 D11	Announcement of Resolutions of the Nineteenth Meeting of the Fifth Session of the Board of Directors
31 May 2011	China Securities Journal Shanghai Securities News Securities Times	B005 B17 D25	Announcement on the Partial Disposal of Shares in Nationz Technologies, Inc.
14 June 2011	China Securities Journal Shanghai Securities News Securities Times	B005 B16 D8	Announcement on Sell-down by Shareholders
15 June 2011	China Securities Journal Shanghai Securities News Securities Times	B004 B24 D1	Announcement on the Partial Disposal of Shares in Nationz Technologies, Inc.
17 June 2011	China Securities Journal Shanghai Securities News Securities Times	B004 B17 D16	Announcement on the Partial Disposal of Shares in Nationz Technologies, Inc.
24 June 2011	China Securities Journal Shanghai Securities News Securities Times	A29 B17 D4	Announcement on the Partial Disposal of Shares in Nationz Technologies, Inc.
28 June 2011	China Securities Journal Shanghai Securities News Securities Times	B009 B17 D7	Announcement on the Purchase of the Company's Shares by the Management of the Company

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
 (English translation for reference only)

	Note V	30 June 2011 (unaudited)	31 December 2010 (audited)
Assets			
Current assets			
Cash	1	15,748,613	15,383,207
Financial assets held for trading	2	1,009,251	123,365
Bills receivable	3	5,368,265	1,289,877
Trade receivables	4	20,016,721	17,563,925
Factored trade receivables	4	3,746,567	3,016,569
Other receivables	5	2,281,773	1,389,783
Prepayments	6	619,957	449,664
Inventories	7	15,146,229	12,103,670
Amount due from customers for contract works	8	13,198,314	14,208,039
Total current assets		77,135,690	65,528,099
Non-current assets			
Available-for-sale financial assets	9	644,456	342,706
Long-term trade receivables	10	1,021,506	567,444
Factored long-term trade receivables	10	4,153,213	4,972,718
Long-term equity investments	12	446,110	917,989
Fixed assets	13	6,753,129	6,523,505
Construction in progress	14	1,478,520	1,146,739
Intangible assets	15	894,280	891,290
Deferred development costs	15	1,748,669	1,466,504
Deferred tax assets	16	665,617	655,245
Long-term deferred assets		38,470	50,032
Other non-current assets		1,505,167	1,090,086
Total non-current assets		19,349,137	18,624,258
TOTAL ASSETS		96,484,827	84,152,357

Consolidated Balance Sheet (continued)

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

	Note V	30 June 2011 (unaudited)	31 December 2010 (audited)
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans	18	15,767,989	6,578,413
Bank advances on factored trade receivables	4	4,350,893	3,016,569
Derivative financial liabilities	2	10,924	40,139
Bills payable	19	10,456,007	10,056,477
Trade payables	20	17,884,230	15,441,206
Amount due to customers for contract works	8	3,226,918	2,772,669
Advances from customers	21	2,400,993	2,744,694
Salary and welfare payables	22	1,952,698	3,097,927
Taxes payable	23	(766,143)	(321,345)
Dividends payable	24	1,155,713	136,302
Other payables	25	4,206,659	2,976,325
Deferred income		88,800	91,256
Provisions	26	274,721	260,693
Long-term loans due within one year	27	886,055	1,322,817
Total current liabilities		61,896,457	48,214,142
Non-current liabilities			
Long-term loans	28	1,394,176	1,719,310
Bank advances on factored long-term trade receivables	10	4,153,213	4,972,718
Bonds cum warrants	29	3,803,772	3,755,790
Deferred tax liabilities	16	70,920	89,167
Other non-current liabilities	30	388,556	439,232
Total non-current liabilities		9,810,637	10,976,217
Total liabilities		71,707,094	59,190,359
Shareholders' equity			
Share capital	31	2,866,732	2,866,732
Capital reserves	32	9,105,645	9,070,975
Restricted shares subject to lock-up	33	(276,266)	(276,266)
Surplus reserves	34	1,537,512	1,537,512
Retained profits	35	9,991,658	9,222,387
Proposed final dividends	35	—	841,297
Foreign currency translation differences		(173,429)	(168,765)
Total equity attributable to equity holders of the parent		23,051,852	23,093,872
Minority interests		1,725,881	1,868,126
Total shareholders' equity		24,777,733	24,961,998
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		96,484,827	84,152,357

The financial statements set out on page 52 to 179 have been signed by:

Legal representative:
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Finance Division:
Shi Chunmao

Consolidated Income Statement

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

	Note V	Six months ended 30 June 2011 (unaudited)	Six months ended 30 June 2010 (unaudited)
Operating revenue	36	37,336,595	30,725,420
Less: Operating costs	36	26,243,731	20,446,914
Taxes and surcharges	38	896,401	467,512
Selling and distribution costs		4,913,396	4,000,052
Administrative expenses		1,136,385	1,150,959
Research and development costs		3,664,474	3,195,277
Finance expenses	41	440,485	740,635
Impairment losses	42	286,717	152,089
Add: Gains/(losses) from changes in fair value	39	(236,551)	77,926
Investment income	40	1,165,289	23,978
Including: Share of profits and losses of jointly-controlled entities and associates	40	9,407	22,197
Operating profit		683,744	673,886
Add: Non-operating income	43	629,119	743,811
Less: Non-operating expenses	43	40,114	24,838
Including: Loss on disposal of non-current assets		5,087	10,222
Total profit		1,272,749	1,392,859
Less: Income tax	44	436,419	399,571
Net profit		836,330	993,288
Net profit attributable to owners of the parent		769,271	877,489
Minority interests		67,059	115,799
Earnings per share	45		
Basic earnings per share		RMB0.27	RMB0.32
Diluted earnings per share		RMB0.27	RMB0.31
Other comprehensive income	46	(2,303)	(135,085)
Total comprehensive income		834,027	858,203
Including:			
Total comprehensive income attributable to owners of the parent		764,607	742,499
Total comprehensive income attributable to minority interests		69,420	115,704

Consolidated Statement of Changes in Equity

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

	For the six months ended 30 June 2011 (unaudited)									
	Equity attributable to equity holders of the parent									
	Share capital	Capital reserve	Restricted Shares subject to lock-up	Surplus reserve	Retained profits	Proposed Final dividends	Foreign currency translation differences	Sub-total	Minority interests	Total shareholders' equity
I. Current period's opening balance	2,866,732	9,070,975	(276,266)	1,537,512	9,222,387	841,297	(168,765)	23,093,872	1,868,126	24,961,998
II. Changes during the period										
(1) Net profit	—	—	—	—	769,271	—	—	769,271	67,059	836,330
(2) Other comprehensive income	—	—	—	—	—	—	(4,664)	(4,664)	2,361	(2,303)
Total comprehensive income	—	—	—	—	769,271	—	(4,664)	764,607	69,420	834,027
(3) Shareholder's capital injection and capital reduction										
1. Capital injection from shareholders	—	—	—	—	—	—	—	—	6,696	6,696
2. Equity settled share expenses charged to equity	—	34,670	—	—	—	—	—	34,670	—	34,670
3. Others	—	—	—	—	—	—	—	—	316	316
(4) Profit appropriation										
1. Appropriation to surplus reserves	—	—	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	(841,297)	—	(841,297)	(218,677)	(1,059,974)
3. Proposed final dividends	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—
(5) Transfer of shareholders' equity										
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—
(6) Others										
1. Effect of changes of other equity holders' interest in invested entities by equity method	—	—	—	—	—	—	—	—	—	—
III. Current period's closing balance	2,866,732	9,105,645	(276,266)	1,537,512	9,991,658	—	(173,429)	23,051,852	1,725,881	24,777,733

Consolidated Statement of Changes in Equity (continued)

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

For the six months ended 30 June 2010 (unaudited)										
Equity attributable to equity holders of the parent										
	Share capital	Capital reserve	Restricted Shares subject to lock-up	Surplus reserve	Retained profits	Proposed Final dividends	Foreign currency translation differences	Sub-total	Minority interests	Total shareholders' equity
I. Current period's opening balance	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. Changes during the period										
(1) Net profit	—	—	—	—	877,489	—	—	877,489	115,799	993,288
(2) Other comprehensive income	—	—	—	—	—	—	(134,990)	(134,990)	(95)	(135,085)
Total comprehensive income	—	—	—	—	877,489	—	(134,990)	742,499	115,704	858,203
(3) Shareholder's capital injection and capital reduction										
1. Capital injection from shareholders	79,819	3,117,060	156,663	—	—	—	—	3,353,542	—	3,353,542
2. Equity settled share expense charged to equity	—	79,478	—	—	—	—	—	79,478	—	79,478
3. Others	—	—	—	—	—	—	—	—	(2,200)	(2,200)
(4) Profit appropriation										
1. Appropriation to surplus reserves	—	—	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	(7,936)	(552,425)	—	(560,361)	(156,736)	(717,097)
3. Proposed final dividends	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—
(5) Transfer of shareholders' equity										
1. Transfer of capital reserve to share capital	955,577	(955,577)	—	—	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—
(6) Others										
1. Effect of changes of other equity holders' interest in invested entities by equity method	—	443,298	—	—	—	—	—	443,298	—	443,298
III. Current period's closing balance	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 Cash Flow Statement

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

	Note V	Six months ended 30 June 2011 (unaudited)	Six months ended 30 June 2010 (unaudited)
I. Cash flows from operating activities			
Cash received from sale of goods or rendering of services		31,366,465	31,398,128
Refunds of taxes		2,671,771	1,986,587
Cash received relating to other operating activities	47	2,353,862	444,551
Sub-total of cash inflows		36,392,098	33,829,266
Cash paid for goods and services		26,748,405	23,229,494
Cash paid to and on behalf of employees		6,901,016	5,844,914
Cash paid for all types of taxes		2,695,191	3,139,200
Cash paid relating to other operating activities	47	6,218,839	5,299,970
Sub-total of cash outflows		42,563,451	37,513,578
Net cash flows from operating activities	48	(6,171,353)	(3,684,312)
II. Cash flows from investing activities			
Cash received from sale of investments		493,155	—
Cash received from return on investments		114,601	3,581
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		25,298	2,983
Sub-total of cash inflows		633,054	6,564
Cash paid to acquisition of fixed asset, intangible assets and other long term assets		1,520,120	1,433,074
Cash paid for acquisition of investments		916,522	4,500
Sub-total of cash outflows		2,436,642	1,437,574
Net cash flows from investing activities		(1,803,588)	(1,431,010)

Consolidated Cash Flow Statement (continued)

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

Note V	Six months ended 30 June 2011 (unaudited)	Six months ended 30 June 2010 (unaudited)
III. Cash flows from financing activities		
Cash received from capital injections	6,696	3,197,918
Including: Capital injection into subsidiaries by minority shareholders	6,696	—
Cash received from borrowings	13,905,120	4,834,596
Sub-total of cash inflows	13,911,816	8,032,514
Cash repayments of borrowings	5,477,440	3,778,919
Cash payments for distribution of dividends, profits and for interest expenses	428,740	912,571
Sub-total of cash outflows	5,906,180	4,691,490
Net cash flows from financing activities	8,005,636	3,341,024
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	(68,264)	(15,988)
V. Net increase in cash and cash equivalents	(37,569)	(1,790,286)
Add: cash and cash equivalents at beginning of year	14,905,099	14,075,822
VI. Net balance of cash and cash equivalents	14,867,530	12,285,536

Balance Sheet

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

	Note XIII	30 June 2011 (Unaudited)	31 December 2010 (Audited)
Assets			
Current assets			
Cash		10,093,325	9,690,867
Financial assets held for trading		993,692	23,984
Bills receivable		5,211,634	1,199,161
Trade receivables	1	28,341,563	24,283,587
Factored trade receivables	1	3,607,729	2,864,307
Prepayments		152,358	85,559
Dividends receivable		1,752,246	27,418
Other receivables	2	3,917,393	5,678,250
Inventories		5,844,424	5,501,368
Amount due from customers for contract works		11,693,928	12,668,254
Total current assets		71,608,292	62,022,755
Non-current assets			
Available-for-sale financial assets	3	212,448	244,448
Long-term trade receivables	4	1,804,596	1,262,311
Factored long-term trade receivables	4	4,278,213	5,097,718
Long-term equity investments	5	3,174,177	3,515,824
Fixed assets		4,404,830	4,253,887
Construction in progress		919,550	796,916
Intangible assets		503,267	492,918
Deferred development costs		422,381	350,767
Deferred tax assets		429,094	447,416
Long-term deferred assets		721	—
Other non-current assets		1,505,167	1,090,086
Total non-current assets		17,654,444	17,552,291
TOTAL ASSETS		89,262,736	79,575,046

Balance Sheet (continued)

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

	Note XIII	30 June 2011 (Unaudited)	31 December 2010 (Audited)
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans		9,814,845	4,165,978
Bank advances on factored trade receivables	1	4,212,055	2,864,307
Bills payable		12,987,982	9,444,653
Trade payables		21,608,109	25,507,206
Amount due to customers for contract works		2,491,452	1,703,293
Advances from customers		1,835,944	2,110,666
Salary and welfare payables		230,571	504,335
Taxes payable		(1,147,085)	(948,244)
Dividends payable		841,171	97
Other payables		12,042,621	8,030,437
Deferred income		33,597	7,805
Provisions		133,939	109,493
Long-term loans due within one year		711,876	1,087,589
Total current liabilities		65,797,077	54,587,615
Non-current liabilities			
Long-term loans		500,000	728,497
Bank advances on factored long-term trade receivables	4	4,278,213	5,097,718
Bonds cum warrants		3,803,772	3,755,790
Deferred tax liabilities		66,048	66,048
Other non-current liabilities		388,556	439,232
Total non-current liabilities		9,036,589	10,087,285
Total liabilities		74,833,666	64,674,900
Shareholders' equity			
Share capital		2,866,732	2,866,732
Capital reserves		9,100,872	9,066,202
Restricted shares subject to lock-up		(276,266)	(276,266)
Surplus reserves		875,295	875,295
Retained profits		1,878,059	1,542,299
Proposed final dividends		—	841,297
Foreign currency translation differences		(15,622)	(15,413)
Total shareholders' equity		14,429,070	14,900,146
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		89,262,736	79,575,046

Income Statement

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

	Note XIII	Six months ended 30 June 2011 (Unaudited)	Six months ended 30 June 2010 (Unaudited)
Operating revenue	6	30,966,602	27,241,412
Less: Operating costs	6	27,606,825	22,887,054
Taxes and surcharges		115,754	82,690
Selling and distribution costs		3,126,795	2,841,351
Administrative expenses		639,113	627,215
Research and development costs		1,044,595	572,845
Finance expenses		601,960	723,057
Impairment losses		218,236	179,794
Add: Gains/(losses) from changes in fair value		(181,464)	—
Investment income	7	2,814,865	594,562
Including: Share of profits and losses of Jointly controlled entities and associates	7	(1,942)	12,898
Operating profit		246,725	(78,032)
Add: Non-operating income		143,998	119,078
Less: Non-operating expenses		30,785	4,772
Including: Loss on disposal of non-current assets		1,588	3,477
Total profit		359,938	36,274
Less: Income tax		24,178	(19,099)
Net profit		335,760	55,373
Other comprehensive income		(209)	(203)
Total comprehensive income		335,551	55,170

Statement of Changes in Equity

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

	For the six months ended 30 June 2011 (unaudited)							
	Share capital	Capital reserve	Restricted shares subject to lock-up	Surplus reserve	Retained profits	Proposed final dividends	Foreign currency translation differences	Total shareholders' equity
I. Current period's opening balance	2,866,732	9,066,202	(276,266)	875,295	1,542,299	841,297	(15,413)	14,900,146
II. Changes during the period								
(1) Net profit	—	—	—	—	335,760	—	—	335,760
(2) Other comprehensive income	—	—	—	—	—	—	(209)	(209)
Total comprehensive income	—	—	—	—	335,760	—	(209)	335,551
(3) Shareholder's capital injection and capital reduction								
1. Capital injection from shareholders	—	—	—	—	—	—	—	—
2. Equity settled share expenses charged to equity	—	34,670	—	—	—	—	—	34,670
3. Others	—	—	—	—	—	—	—	—
(4) Profit appropriation								
1. Appropriation to surplus reserves	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	(841,297)	—	(841,297)
3. Proposed final dividends	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
(5) Transfer of shareholders' equity								
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
(6) Others								
1. Effect of changes of other equity holders' interest in invested entities by equity method	—	—	—	—	—	—	—	—
III. Current period's closing balance	2,866,732	9,100,872	(276,266)	875,295	1,878,059	—	(15,622)	14,429,070

Statement of Changes in Equity (continued)

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

	For the six months ended 30 June 2010 (unaudited)							
	Share capital	Capital reserve	Restricted shares subject to lock-up	Surplus reserve	Retained profits	Proposed final dividends	Foreign currency translation differences	Total shareholders' equity
I. Current period's opening balance	1,831,336	6,745,877	(447,235)	842,986	2,100,753	552,425	(14,813)	11,611,329
II. Changes during the period								
(1) Net profit	—	—	—	—	55,373	—	—	55,373
(2) Other comprehensive income	—	—	—	—	—	—	(203)	(203)
Total comprehensive income	—	—	—	—	55,373	—	(203)	55,170
(3) Shareholder's capital injection and capital reduction								
1. Capital injection from shareholders	79,819	3,116,945	156,663	—	—	—	—	3,353,427
2. Equity settled share expenses charged to equity	—	79,478	—	—	—	—	—	79,478
3. Others	—	—	—	—	—	—	—	—
(4) Profit appropriation								
1. Appropriation to surplus reserves	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	(7,936)	(552,425)	—	(560,361)
3. Proposed final dividends	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
(5) Transfer of shareholders' equity								
1. Transfer of capital reserve to share capital	955,577	(955,577)	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
(6) Others								
1. Effect of changes of other equity holders' interest in invested entities by equity method	—	443,292	—	—	—	—	—	443,292
III. Current period's closing balance	2,866,732	9,430,015	(290,572)	842,986	2,148,190	—	(15,016)	14,982,335

Cash Flow Statement

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

	Six months ended 30 June 2011 (unaudited)	Six months ended 30 June 2010 (unaudited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	25,995,501	26,916,276
Refunds of taxes	2,135,676	1,561,518
Cash received relating to other operating activities	3,250,718	217,250
Sub-total of cash inflows	31,381,895	28,695,044
Cash paid for goods and services	29,730,608	26,989,354
Cash paid to and on behalf of employees	2,477,421	1,424,783
Cash paid for all types of taxes	309,497	330,638
Cash paid relating to other operating activities	3,072,147	4,001,059
Sub-total of cash outflows	35,589,673	32,745,834
Net cash flows from operating activities	(4,207,778)	(4,050,790)
II. Cash flows from investing activities		
Cash received from sale of investments	493,155	—
Cash received from return on investments	28,572	41,267
Cash received from the disposal of fixed assets, intangible assets and other long-term assets, net	25,048	—
Sub-total of cash inflows	546,775	41,267
Cash paid to acquisition of fixed asset, intangible assets and other long term assets	607,575	985,214
Cash paid for acquisition of investments	214,500	—
Sub-total of cash outflows	822,075	985,214
Net cash flows from investing activities	(275,300)	(943,947)

Cash Flow Statement (continued)

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

	Six months ended 30 June 2011 (unaudited)	Six months ended 30 June 2010 (unaudited)
III. Cash flows from financing activities		
Cash received from capital injection	—	3,197,918
Cash received from borrowings	7,356,664	3,577,794
Sub-total of cash inflows	7,356,664	6,775,712
Cash repayment of borrowings	2,312,007	2,241,650
Cash payments for distribution of dividends, profits and for interest expenses	281,531	859,408
Sub-total of cash outflows	2,593,538	3,101,058
Net cash flows from financing activities	4,763,126	3,674,654
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	(65,585)	(45,172)
V. Net increase in cash and cash equivalents	214,463	(1,365,255)
Add: cash and cash equivalents at beginning of year	9,505,157	9,808,228
VI. Net balance of cash and cash equivalents	9,719,620	8,442,973

Notes to Financial Statements

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

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 subcontracting of telecommunications projects.

On 9 December 2004, pursuant to a resolution adopted at the Company’s second extraordinary shareholders’ general meeting of 2004 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
(English translation for reference only)

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 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 and the total share capital of the Company in issue following the grant was 1,831,336,215 shares.

On 21 January 2010, the Company completed the placing of its new H shares, pursuant to which 58,294,800 H shares were issued and allotted. Following the issue of new H shares, the total share capital increased from 1,831,336,215 shares to 1,889,631,015 shares.

As at the close of trading 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 the warrants, the Company's A share capital 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 after the exercise.

On 12 March 2010, 3,239 Scheme Participants under the first award of the Phase I Share Incentive Scheme fulfilled the conditions for the second unlocking of Subjects Shares. A total of 26,452,094 A shares were unlocked as Subject Shares of the second unlocking. The total number of share capital remained unchanged after the unlocking, although there was a change in the inherent structure of the share capital.

The implementation of the Company's 2009 profit distribution and capitalisation of capital reserve was completed on 24 June 2010, whereby 5 bonus shares for every 10 shares held were issued based on the number of shares recorded in the shareholders' register on the record date by way of capitalisation of capital reserve. The share capital was increased by a total of 955,577,228 shares as a result, and the total share capital after the capitalisation was 2,866,731,684 shares.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

I. CORPORATE BACKGROUND (CONTINUED)

On 15 December 2010, 763 Scheme Participants under the second award of the Phase I Share Incentive Scheme fulfilled the conditions for the first unlocking of Subject Shares. A total of 2,520,957 A shares were unlocked as Subject Shares of the first unlocking. The total number of share capital remained unchanged after the unlocking, although there was a change in the inherent structure of the share capital.

As at 30 June 2011, the total number of the Company's issued share capital on an accumulative basis was 2,866,731,684 shares.

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 30 August 2011.

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 "ASBEs") 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 2011 and the results of their operations and their cash flows for the first half year of 2011.

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
(English translation for reference only)

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.

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

The excess of the sum of the consideration paid (or equities issued) for business combination and equity interests in the acquiree held prior to the date of acquisition over the share of the attributable net identifiable assets of the acquiree, measured at fair value, was recognized as goodwill, which is subsequently measured at cost less cumulative impairment loss. In case the fair value of the sum of the consideration paid (or equities issued) and equity interests in the acquiree held prior to the date of acquisition is less than the fair value of the share of the attributable net identifiable assets of the acquiree, a review of the measurement of the fair values of the identifiable assets, liabilities and contingent liabilities, the consideration paid for the combination (or equity issued) and the equity interests in the acquiree held prior to the date of acquisition is conducted. If the review indicates that the fair value of the sum of the consideration paid (or equities issued) and equity interests in the acquiree held prior to the date of acquisition is indeed less than the fair value of the share of the attributable net identifiable assets of the acquiree, the difference is recognized in current profit or loss.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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 as at 30 June 2011. 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 balances, transactions and unrealized profit and loss arising from intercompany transactions, and dividends are eliminated on consolidation.

The excess of current loss attributable to minority shareholders of a subsidiary over their entitlements to the opening balance of shareholders' equity shall be charged to minority interests. A change in minority interests without loss of control is accounted for as an equity transaction.

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.

8. Foreign currency translation

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

Notes to Financial Statements

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

8. Foreign currency translation (continued)

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 translations 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.

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.

Notes to Financial Statements

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Recognition and derecognition of financial instruments (continued)

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.

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 derivative financial assets and those designated at fair value through profit or loss at inception. Financial assets are classified as derivative 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.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Classification and valuation of financial assets (continued)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets whose maturity and redemption amount are fixed or ascertained and in respect of which the Group has clear intentions and 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 and losses are recognized in the income statement 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 and losses arising from fair value changes in available-for-sale financial assets, except for impairment losses and foreign currency monetary items' translation differences which are 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.

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

Notes to Financial Statements

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

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 derivative financial liabilities and those designated at fair value through profit or loss at inception. Financial liabilities are classified as derivative 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 realized 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
(English translation for reference only)

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 willing 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
(English translation for reference only)

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.

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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 — Longterm 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

(1) *Individually significant accounts receivable for which separate bad-debt provision is made*

The Group conducts impairment tests in respect of its significant account receivables 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.

An account receivable is considered individually significant if it amounts to 0.1% of the total original value of all accounts receivable in aggregate.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

10. Accounts Receivable (continued)

(2) *Accounts receivable for which collect bad debt provision is made*

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 the merger of companies not under the common control through multiple transactions in different stages is measured at the sum of the carrying value of equity investments in the acquiree held prior to the date of acquisition and the cost of additional investment on the date of acquisition). Acquisition costs represent the sum of the fair values of assets paid, liabilities incurred or assumed and equity instruments issued by the acquirer. 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 longterm equity investments in investees over which the Company exercises control. Control is defined as the power to determine the financial and operational policies of a corporation so as to derive gains from the operations of such corporation.

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 longterm investments is considered in accordance with relevant asset impairment policies.

The equity method is used to account for long-term equity investments when the Group 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 influence 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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

12. Long-term equity investments (continued)

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.

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 intertransactions 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.

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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13. Fixed assets

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.

Except freehold lands account no appreciation, other 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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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.

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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

16. Intangible assets

Intangible assets are recognised only when it is probable that economic benefits relating to such intangible; assets would flow into the Group and that their cost can be reliably measured. Intangible assets are initially measured at cost, provided that intangible assets which are acquired in a business combination and whose fair value can be reliably measured shall be separately recognized as intangible assets at fair value.

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

Useful life of respective intangible assets is as follows:

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

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

Straight line 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 deferred 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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

17. Provisions

Other than contingent consideration in a business combination and contingent liabilities undertaken, the Group recognizes as provision 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.

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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

18. Share-based payments (continued)

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.

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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

19. Revenue (continued)

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 recognized 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.

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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

21. Income tax (continued)

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 taxable temporary difference 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.

Deferred 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 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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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.

23. Impairment

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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Impairment (continued)

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.

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 postretirement 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. Profit distribution

Cash dividend of the Company is recognized as liability after approval by the general meeting.

26. Related parties

A related party of a company is one who controls or jointly controls or exercises significant influence over that company or is, together with that company, under the control or joint control of another party.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. Segment reporting

The Group defines its operating segments on the basis of its internal organisational structure, management requirements and internal reporting system. The reporting segments and information to be disclosed in respect of each segment are determined on the basis of the operating segments.

An operating segment is an integral part of the Group satisfying all of the following conditions:

- (1) being able to generate income and incur expenses in its day-to-day activities;
- (2) the operating results of which can be assessed by the Company's management on a regular basis in order to make decisions about resource allocation and performance assessment;
- (3) accounting information of such segment, such as financial conditions, results of operations and cash flow, can be obtained by the Group.

Two or more operating segments with similar economic characteristics and in fulfillment of certain conditions may be consolidated into one operating segment.

28. 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.

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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

28. Significant accounting judgements and estimates (continued)

Judgements (continued)

Revenue recognition (continued)

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.

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 postcontract 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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

28. Significant accounting judgements and estimates (continued)

Judgements (continued)

Revenue recognition (continued)

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.

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 to the consolidated financial statements.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

28. Significant accounting judgements and estimates (continued)

Judgements (continued)

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. For details please refer to 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.

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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

28. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

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.

Deferred development costs

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

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.

Notes to Financial Statements

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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

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. The qualification of national-grade hi-tech enterprise in 2011 is under review. Income tax rates for certain domestic subsidiaries of the Group are disclosed as follows:

Xi'an Zhongxing New Software Company Limited, a newly established 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 Cai Shui [2008] No. 1. The current year is its third profitable year, entitled to a half reduction in 25% enterprise income tax.

Nanjing Zhongxingxin Software Company Limited, a newly established 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 Cai Shui [2008] No. 1. The current year is its second profitable year.

Notes to Financial Statements

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III. TAXATION (CONTINUED)

2. Tax concession and approval documents (continued)

Shenzhen Zhongxing ICT Company Limited, a newly established software enterprise in September 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 Shen Guo Shui Nan Jian Mian Bei An (2009) No. 383. The current year is its third profitable year, entitled to a half reduction in 25% enterprise income tax.

Shenzhen Zhongxing Software Company Limited is a national-grade hi-tech enterprise which has been accredited as an Important Software Enterprise under the National Planning Layout for the years from 2007 to 2010. It is currently under application for Important Software Enterprise under the 2011 National Planning Layout, the applicable income tax rate for which is 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. The qualification of national-grade hi-tech enterprise in 2011 is under review.

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 Hitech Industrial Park. The qualification of national-grade hi-tech enterprise in 2011 is under review.

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. The qualification of national-grade hi-tech enterprise in 2011 is under review.

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. The qualification of national-grade hi-tech enterprise in 2011 is under review.

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 registered in Shanghai Pudong New Area. The qualification of national-grade hi-tech enterprise in 2011 is under review.

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 fifth profitable year and a 50% reduction in the enterprise income tax rate of 24% is applicable. The said company is also a national-grade hi-tech enterprise for the years from 2008 to 2010. The qualification of national-grade hi-tech enterprise in 2011 is under review.

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III. TAXATION (CONTINUED)

2. Tax concession and approval documents (continued)

Nanjing Zhongxing Software Company Limited is a national-grade hi-tech enterprise for the years from 2008 to 2010. The qualification of national-grade hi-tech enterprise in 2011 is under review.

ZTEsoft Technology Company Limited is a national-grade hi-tech enterprise which has been accredited as an Important Software Enterprise under the National Planning Layout for the years from 2007 to 2010. It is currently under application for Important Software Enterprise under the 2011 National Planning Layout, with which applicable income tax rate entitled to 10%.

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 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. The qualification of national-grade hi-tech enterprise in 2011 is under review.

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. The qualification of national-grade hi-tech enterprise in 2011 is under review.

Wuxi Zhongxing Optoelectronics Technologies Company Limited was registered at Wuxi State's Hi-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. The qualification of national-grade hi-tech enterprise in 2011 is under review.

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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 period-end	Balance of other items effectively representing net investment	Percentage of shareholding (%)	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	RMB52.08 million	Software development	75250847-2	RMB52.08 million	–	74%	24%	98%	Yes	111,186	15,601
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	15,625	9,701
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	46,342	13,912
ZTE Telecom India Private Limited	India	Cui Liangjun	Telecommunications and related equipment manufacturing	INR1, 688 million	Production of telecommunication products and services	Nil	USD37.80 million	–	100%	–	100%	Yes	–	–
ZTEsoft Technology Company Limited	Nanjing	Chen Jie	Manufacturing	RMB202 million	Systems project outsourcing	74537900-0	RMB152 million	–	75%	–	75%	Yes	169,596	(14,897)
Shenzhen Changfei Investment Company Limited	Shenzhen	Pang Ran	Investment	RMB30 million	Industrial investment	75860475-6	RMB15.30 million	–	51%	–	51%	Yes	373,884	60,331
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	85,665	1,919
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	50,752	54
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	28,173	(7,406)
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	32,583	6,274

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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 2011 included: tier-one subsidiaries 深圳市中興供應鏈有限公司, 深圳市百維技術有限公司; tier-two subsidiaries 衡陽中興網信科技有限公司, Netex Cayman Holdings Co. Ltd (Cayman), 西安中興精誠科技有限公司, 上海市和而泰酒店投資管理有限公司, 南京中興和泰酒店管理有限公司, 深圳市中興物聯科技有限公司, 廈門中興軟創軟件有限公司, ZTE Albania Sh.p.k., ZTE International S.A.; and tier-three subsidiaries ZTE CORPORATION PARAGUAY S.A., Apexvision Limited and ZTE Switzerland AG.

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 2011	31 December 2010
	30 June 2011	30 June 2010		
USD	6.5472	6.8272	6.4716	6.6227
EUR	9.0839	9.2655	9.3612	8.8065
HKD	0.8413	0.8786	0.8316	0.8509
GBP	10.3084	10.5163	10.3986	10.2182
INR	0.1454	0.1489	0.1440	0.1467
BRL	4.0400	3.8044	4.1152	3.9647
PKR	0.0762	0.0809	0.0754	0.0769
IDR	0.0007	0.0007	0.0008	0.0007

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

1. Cash

		30 June 2011			31 December 2010		
		Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Cash on hand	RMB	275	1.0000	275	394	1.0000	394
	USD	324	6.4716	2,096	1,302	6.6227	8,623
	SAR	548	1.7259	945	183	1.7658	323
	EUR	94	9.3612	881	23	8.8065	203
	DZD	952	0.0893	85	1,649	0.0873	144
	INR	1,257	0.1440	181	1,316	0.1467	193
	THB	314	0.2104	66	205	0.2193	45
	HKD	26	0.8316	22	39	0.8509	33
	Others			3,289			7,436
	Sub-total			7,840			17,394

		30 June 2011			31 December 2010		
		Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Bank deposit	RMB	7,325,914	1.0000	7,325,914	7,392,454	1.0000	7,392,454
	USD	753,678	6.4716	4,877,501	765,760	6.6227	5,071,402
	HKD	61,128	0.8316	50,834	166,513	0.8509	141,686
	BRL	77,021	4.1152	316,958	21,909	3.9647	86,863
	PKR	407,533	0.0754	30,728	851,053	0.0769	65,446
	EGP	16,589	1.0846	17,992	26,396	1.1345	29,946
	IDR	74,322,500	0.0008	59,458	245,498,571	0.0007	171,849
	EUR	134,456	9.3612	1,258,673	137,026	8.8065	1,206,719
	DZD	521,131	0.0893	46,537	589,737	0.0873	51,484
	MYR	33,911	2.1426	72,657	26,665	2.1467	57,242
	ETB	111,912	0.3828	42,840	97,302	0.3940	38,337
	INR	63,306	0.1440	9,116	233,408	0.1467	34,241
	CAD	6,244	6.6683	41,638	9,125	6.6214	60,420
	SAR	8,178	1.7259	14,114	12,957	1.7658	22,879
	GBP	5,042	10.3986	52,425	1,353	10.2182	13,825
	THB	207,058	0.2104	43,565	69,476	0.2193	15,236
	RUR	369,952	0.2305	85,274	95,592	0.2169	20,734
	Others			611,016			478,041
	Sub-total			14,957,240			14,958,804

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

1. Cash (continued)

		30 June 2011			31 December 2010		
		Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Other cash	RMB	489,851	1.0000	489,851	204,128	1.0000	204,128
	USD	39,861	6.4716	257,965	30,479	6.6227	201,853
	Others			35,717			1,028
	Sub-total			783,533			407,009
	Total			15,748,613			15,383,207

As at 30 June 2011, the Group's cash subject to ownership restriction amounted to RMB783,533,000 (31 December 2010: RMB407,009,000), including acceptance bill deposits of RMB452,963,000 (31 December 2010: RMB180,048,000), letter of credit deposits of RMB7,142,000 (31 December 2010: RMB27,220,000), guarantee letter deposits of RMB72,893,000 (31 December 2010: RMB27,891,000) and risk compensation fund to be released within one year of RMB250,535,000 (31 December 2010: RMB171,850,000).

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 2011, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB1,317,208,000 (31 December 2010: RMB1,261,936,000). Risk compensation fund to be released within one year amounting to RMB250,535,000 (31 December 2010: RMB171,850,000) was accounted for as cash subject to ownership restriction. Risk compensation fund to be released after one year amounting to RMB1,066,673,000 (31 December 2010: RMB1,090,086,000) was accounted for as other non-current assets.

As at 30 June 2011, the Group's overseas currency deposits amounted to RMB2,013,291,000 (31 December 2010: RMB2,779,314,000).

Current bank deposits earn interest income based on current deposit interest rate. The period for short-term time deposits varies from 7 days to 12 months. The short-term time deposits, subject to the Group's cash needs, earn interest income based on corresponding time deposits interest rate. Time deposits with a term of over three months amounting to RMB97,550,000 (31 December 2010: RMB71,099,000) were not included in cash and cash equivalents.

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

2. Financial assets/liabilities held for trading

Financial assets held for trading

	30 June 2011	31 December 2010
Equity instruments held for trading	969,091	—
Derivative financial assets	40,160	123,365
	1,009,251	123,365

Derivative financial liabilities

	30 June 2011	31 December 2010
Derivative financial liabilities	(10,924)	(40,139)

3. Bills receivable

	30 June 2011	31 December 2010
Commercial acceptance bills	1,841,996	354,070
Bank acceptance bills	3,526,269	935,807
	5,368,265	1,289,877

As at 30 June 2011, there was no bill which had been reclassified as trade receivables as a result of the issuers' default (31 December 2010: Nil). There were no bills which had been endorsed to other parties but not yet due as at 30 June 2011 (31 December 2010: RMB2,854,000).

As at 30 June 2011, commercial acceptance bills with a carrying value of RMB842,161,000 were discounted for short-term loans (31 December 2010: RMB339,796,000). As at 30 June 2011, bank acceptance bills with a carrying value of RMB2,819,963,000 were discounted for short-term loans (31 December 2010: RMB70,400,000). As at 30 June 2011, no bills receivable were pledged as security for short term loans (31 December 2010: Nil).

As at 30 June 2011, the balance included amounts due from shareholders holding 5% or more in the voting shares or related parties amounting to RMB3,860,000 (31 December 2010: Nil). Please refer to Note VI. "The relationships and transactions with related parties".

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

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 2011			31 December 2010		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
RMB	6,365,010	1.0000	6,365,010	6,242,921	1.0000	6,242,921
USD	1,237,420	6.4716	8,008,087	868,888	6.6227	5,754,385
EUR	221,492	9.3612	2,073,431	216,816	8.8065	1,909,390
PKR	1,974,327	0.0754	148,864	1,685,706	0.0769	129,631
INR	6,796,616	0.1440	978,713	5,240,361	0.1467	768,761
Others			2,442,616			2,758,837
			20,016,721			17,563,925

Aging analysis of trade receivables was as follows:

	30 June 2011	31 December 2010
Within 1 year	19,200,160	16,810,036
1 to 2 years	1,603,489	1,453,857
2 to 3 years	623,523	708,457
Over 3 years	948,231	681,093
	22,375,403	19,653,443
Less: bad debt provisions for trade receivables	2,358,682	2,089,518
	20,016,721	17,563,925

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

4. Trade receivables (continued)

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

	30 June 2011				31 December 2010			
	Book balance		Bad debt		Book balance		Bad debt	
	Amount	Percentage (%)	Amount	Percentage of charge (%)	Amount	Percentage (%)	Amount	Percentage of charge (%)
Individually significant with exclusive provision	523,130	2	523,130	100	522,638	3	522,638	100
Receivables provisioned by units								
0 to 6 months	15,822,735	71	—	—	14,088,727	71	12,513	—
7 to 12 months	3,377,425	15	210,363	6	2,721,309	14	158,268	6
13 to 18 months	918,261	4	225,571	25	1,000,057	5	343,247	34
19 to 24 months	685,228	3	405,594	59	453,800	2	232,676	51
2 to 3 years	623,523	3	568,923	91	708,457	4	661,721	93
Over 3 years	425,101	2	425,101	100	158,455	1	158,455	100
	21,852,273	98	1,835,552	8	19,130,805	97	1,566,880	8
	22,375,403	100	2,358,682	11	19,653,443	100	2,089,518	11

As at 30 June 2011, 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	276,310	276,310	100%	Debtor running into serious financial difficulties
Overseas carriers 2	155,241	155,241	100%	Debtor running into serious financial difficulties
Overseas carriers 3	91,579	91,579	100%	Debtor running into serious financial difficulties
	523,130	523,130		

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

4. Trade receivables (continued)

There was no write-back or recovery of individually significant trade receivables, for which individual provision for bad debts had been made for the first half year of 2011 (2010: Nil).

	30 June 2011	31 December 2010
Total trade receivables from top five accounts	8,638,336	7,508,659
As a percentage of total trade receivables	38.61%	38.21%

The above trade receivables from top five accounts represent amounts receivable from third-party customers of the Group and were aged within 36 months.

As at 30 June 2011, trade receivables included amounts due from shareholders holding 5% or more in the voting shares or related parties amounting to RMB219,065,000 (31 December 2010: RMB11,662,000), accounting for 0.98% (31 December 2010: 0.06%) 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 RMB3,746,567,000 and RMB4,350,893,000 respectively (31 December 2010: RMB3,016,569,000 and 3,016,569,000).

As at 30 June 2011, trade receivables of the Group with a book value of RMB1,904,151,000 (31 December 2010: RMB2,310,844,000) were subject to ownership restriction as they were pledged as security for short-term loans.

5. Other receivables

Aging analysis of other receivables was as follows:

	30 June 2011	31 December 2010
Within 1 year	2,069,688	1,195,542
1 to 2 years	160,487	172,501
2 to 3 years	30,777	13,522
Over 3 years	20,821	8,218
	2,281,773	1,389,783
Less: Bad debt provision for other receivables	—	—
	2,281,773	1,389,783

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

5. Other receivables (continued)

	30 June 2011	31 December 2010
Total other receivables from top five accounts	745,544	242,416
As a percentage of total amounts of other receivables	32.67%	17.44%

The above other receivables from top five accounts represent other receivables from third-party entities independent from the Group and were aged within 36 months.

As at 30 June 2011, there were no (31 December 2010: Nil) 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 2011		31 December 2010	
	Book balance	Percentage (%)	Book balance	Percentage (%)
Within 1 year	619,957	100%	449,664	100%

	30 June 2011	31 December 2010
Total prepayments from top five accounts	183,452	71,534
As a percentage of total amounts of prepayments	29.59%	15.91%

As at 30 June 2011, RMB521,000 (31 December 2010: RMB2,134,000) 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".

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

7. Inventories

	30 June 2011			31 December 2010		
	Book balance	Provision for impairment	Carrying value	Book balance	Provision for impairment	Carrying value
Raw materials	4,704,064	259,725	4,444,339	3,627,397	152,535	3,474,862
Materials under sub-contract processing	135,278	3,332	131,946	106,443	2,408	104,035
Work-in-progress	1,904,433	13,225	1,891,208	1,260,110	7,696	1,252,414
Finished goods	3,315,791	113,979	3,201,812	2,741,856	211,415	2,530,441
Dispatch of goods	5,819,600	342,676	5,476,924	5,084,643	342,725	4,741,918
	15,879,166	732,937	15,146,229	12,820,449	716,779	12,103,670

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 2011	31 December 2010
Amount due from customers for contract works	13,198,314	14,208,039
Amount due to customers for contract works	(3,226,918)	(2,772,669)
	9,971,396	11,435,370
Contract costs incurred plus recognized profits (losses) to date	40,169,732	46,715,030
Less: estimated loss process billings	380,944	170,973
	29,817,392	35,108,687
	9,971,396	11,435,370

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.

9. Available-for-sale financial assets

	30 June 2011	31 December 2010
Available-for-sale equity instruments	644,456	342,706

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

10. Long-term receivables

	30 June 2011	31 December 2010
Installment payments for the provision of telecommunication system construction projects	1,113,772	660,873
Less: Bad debt provision for long-term receivables	92,266	93,429
	1,021,506	567,444

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 longterm trade receivables” and “Bank advances on factored long-term trade receivables”. The amount was RMB4,153,213,000 (31 December 2010: RMB4,972,718,000).

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

11. Investments in jointly-controlled entities and associates

30 June 2011

	Type of enterprise	Place of registration	Legal representative	Nature of business	Registered capital	Entity Code
Jointly-controlled entities						
Bestel Communications Ltd	Company with limited liability	Republic of Cyprus	Wei Zaisheng	Information technology	CYP600,000	Nil
普興移動通訊設備有限公司	Company with limited liability	China	Xu Qian	R&D, production and sales of communications equipment	RMB128,500,000	79241148-0
Associates						
Shenzhen Zhongxing Xinyu FPC Company Limited	Company with limited liability	China	Zhang Taifeng	Machinery equipment	RMB22,000,000	75252829-7
Shenzhen Fudekang Electronics Company Limited	Company with limited liability	China	Wang Honghai	Wholesaling of machinery and electronic equipment	RMB6,000,000	78924272-7
KAZNURTEL Limited Liability Company	Company with limited liability	Kazakhstan	Khairushev Askar	Manufacturing of computers and related equipment	USD3,000,000	Nil
Wuxi Kaier Technology Company Limited	Company with limited liability	China	Li Su	Machinery equipment	RMB11,332,729	76828981-7
Shenzhen Weigao Semiconductor Company Limited	Company with limited liability	China	Leng Qiming	Machinery equipment	RMB10,000,000	76346680-2
Shenzhen Decang Technology Company Limited	Company with limited liability	China	Wu Jun	Machinery equipment	RMB2,500,000	77162861-3
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	77987106-0
Shenzhen Smart Electronics Company Limited	Company with limited liability	China	Chai Zhiqiang	Machinery equipment	HKD30,000,000	77412852-6
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	67574463-0
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	USD7,000,000	67843164-8
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	68734538-9
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	69727154-7
Zhongxing Energy Company Limited	Company with limited liability	China	Hou Weigui	Energy	RMB1,290,000,000	67055270-1
廣州市鴻昌隆實業有限公司	Company with limited liability	China	Jiang Yongjun	Sales, processing and computer Applications	RMB1,800,000	61869998-4
深圳市偉文電氣有限公司	Company with limited liability	China	Zhu Weimin	Manufacturing and sales of communications related equipment	RMB500,000	69042472-3
ZTE Software Technology (Nanchang) Company Limited	Company with limited liability	China	Hong Bo	Computer application services	RMB15,000,000	77585307-6
上海與德通訊技術有限公司	Company with limited liability	China	Huang Yazhen	communications industry and related businesses	RMB1,250,000	56310423-3
Nanjing Piaoxun Network Technology Company Limited	Company with limited liability	China	Zheng Weijie	Computer Application Services	RMB870,000	5586577-5

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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)

30 June 2011 (continued)

	Total assets	Total liabilities	Total net assets	Operating revenue	Net profit
	Closing balance	Closing balance	Closing balance	Amount for the period	Amount for the period
Jointly-controlled entities					
Bestel Communications Ltd	4,606	96	4,510	—	—
普興移動通訊設備有限公司	480,452	436,997	43,455	286,018	9,930
Associates					
Shenzhen Zhongxing Xinyu FPC Company Limited	138,961	91,272	47,689	57,317	3,876
Shenzhen Fudekang Electronics Company Limited	52,673	41,548	11,125	56,916	1,319
KAZNURTEL Limited Liability Company	7,164	2,109	5,055	—	—
Wuxi Kaier Technology Company Limited	144,661	102,631	42,030	147,828	4,427
Shenzhen Weigao Semiconductor Company Limited	38,846	26,339	12,507	24,365	850
Shenzhen Decang Technology Company Limited	197,826	133,977	63,849	129,803	1,574
深圳市聚飛光電有限公司	347,570	123,422	224,148	164,466	40,871
Shenzhen Smart Electronics Company Limited	59,093	30,621	28,472	79,912	(2,655)
北京中鼎盛安科技有限公司	685	146	539	161	(316)
思卓中興(杭州)科技有限公司	43,996	135	43,861	—	(439)
上海泰捷通信技術有限公司	48,500	35,534	12,966	25,308	(40)
上海中興群力信息科技有限 公司	15,084	10,202	4,882	—	(34)
Zhongxing Energy Company Limited	1,355,034	298,120	1,056,914	4,362	(64,932)
廣州市鴻昌隆實業有限公司	5,304	3,025	2,279	4,708	199
深圳市偉文電氣有限公司	993	622	371	—	—
ZTE Software Technology (Nanchang) Company Limited	109,183	177,011	(67,828)	8,867	(4,708)
上海與德通訊技術有限公司	2,978	2,877	101	3,532	(2,081)
Nanjing Piaoxun Network Technology Company Limited	256	2	254	30	(276)

As the Group no longer exercised significant influence on Nationz Technologies Inc. following disposal of its shares during the first half of 2011 which reduced the Group's shareholding percentage from 20% to 13.50%, shares that remained unsold were reclassified to financial assets held for trading for accounting purposes.

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

31 December 2010

	Type of enterprise	Place of registration	Legal representative	Nature of business	Registered capital	Entity code
Jointly-controlled entities						
Bestel Communications Ltd	Company with limited liability	Republic of Cyprus	Wei Zaisheng	Information technology	CYP600,000	Nil
Associates						
Shenzhen Fudekang Electronics Company Limited	Company with limited liability	China	Wang Honghai	Wholesaling of mechanical and electronic equipment	RMB6,000,000	78924272-7
Nationz Technologies Inc.	Company limited by shares	China	Liu Jinping	Manufacturing of computers and related equipment	RMB108,800,000	71528448-1
KAZNURTEL Limited Liability Company	Company with limited liability	Kazakhstan	Khairushev Askar	Manufacturing of computers and related equipment	USD3,000,000	Nil
Wuxi Kaier Technology Company Limited	Company with limited liability	China	Li Su	Machinery equipment	RMB11,332,729	76828981-7
Shenzhen Zhongxing Xinyu FPC Company Limited	Company with limited liability	China	Zhang Taifeng	Machinery equipment	RMB22,000,000	75252829-7
Shenzhen Weigao Semiconductor Company Limited	Company with limited liability	China	Leng Qiming	Machinery equipment	RMB10,000,000	76346680-2
Shenzhen Decang Technology Company Limited	Company with limited liability	China	Wu Jun	Machinery equipment	RMB2,500,000	77162861-3
深圳市聚飛光電有限公司	Company limited by shares	China	Xing Qibin	Machinery equipment	RMB59,540,000	77987106-0
ZTE Software Technology (Nanchang) Company Limited	Company with limited liability	China	Hong Bo	Computer application services	RMB15,000,000	77585307-6
Shenzhen Smart Electronics Company Limited	Company with limited liability	China	Chai Zhiqiang	Machinery equipment	HKD30,000,000	77412852-6
Zhongxing Energy Company Limited	Company with limited liability	China	Hou Weigui	Energy	RMB1,290,000,000	67055270-1
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	67843164-8
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	67574463-0
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	69727154-7
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	68734538-9
深圳市偉文電氣有限公司	Company with limited liability	China	Zhu Weimin	Manufacturing and sales of communications related equipment	RMB500,000	69042472-3
上海與德通訊技術有限公司	Company with limited liability	China	Huang Yazhen	Communications products and related services	RMB1,250,000	56310423-3
廣州市鴻昌隆實業有限公司	Company with limited liability	China	Jiang Yongjun	Sales, processing and computer application	RMB1,800,000	61869998-4
Nanjing Piaoxun Network Technology Company Limited	Company with limited liability	China	Zheng Weijie	Computer application services	RMB870,000	5586577-5

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

31 December 2010 (continued)

	Total assets	Total liabilities	Total net assets	Operating revenue	Net profit
	Closing balance	Closing balance	Closing balance	Amount for the period	Amount for the period
Jointly-controlled entities					
Bestel Communications Ltd	4,606	96	4,510	—	—
Associates					
Shenzhen Fudekang Electronics Company Limited	38,416	28,610	9,806	72,157	1,710
Nationz Technologies Inc.	2,866,438	163,964	2,702,474	702,373	180,376
KAZNURTEL Limited Liability Company	7,164	2,109	5,055	—	—
Wuxi Kaier Technology Company Limited	124,176	86,573	37,603	216,591	5,744
Shenzhen Zhongxing Xinyu FPC Company Limited	135,621	91,808	43,813	135,459	14,483
Shenzhen Weigao Semiconductor Company Limited	32,554	20,897	11,657	186,002	6,512
Shenzhen Decang Technology Company Limited	182,529	120,254	62,275	231,156	1,556
深圳市聚飛光電有限公司	287,088	104,274	182,814	287,693	65,143
ZTE Software Technology (Nanchang) Company Limited	31,031	94,151	(63,120)	22,465	(1,191)
Shenzhen Smart Electronics Company Limited	68,670	37,543	31,127	160,549	673
Zhongxing Energy Company Limited	1,254,585	132,300	1,122,285	6,771	(78,828)
思卓中興(杭州)科技有限公司	4,760	4	4,756	—	(999)
北京中鼎盛安科技有限公司	981	126	855	—	(1,410)
上海中興群力信息科技有限公司	4,916	—	4,916	—	(79)
上海泰捷通信技術有限公司	32,593	19,587	13,006	35,356	2,925
深圳市偉文電氣有限公司	993	622	371	—	(128)
上海與德通訊技術有限公司	2,623	441	2,182	—	(819)
廣州市鴻昌隆實業有限公司	5,568	4,335	1,233	5,528	(38)
Nanjing Piaoxun Network Technology Company Limited	533	3	530	—	(340)

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

12. Long-term equity investments

		30 June 2011	31 December 2010
Equity method			
Jointly-controlled entities	(1)	50,720	2,255
Associates	(2)	395,390	915,734
		446,110	917,989

(1) Jointly-controlled entities

	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%	—
普興移動通訊設備有限 公司	43,500	—	48,465	48,465	50%	50%	—
		<u>2,255</u>	<u>48,465</u>	<u>50,720</u>			<u>—</u>

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12. Long-term equity investments (continued)

(2) Associates

	Investment cost	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	5,000	9,957	880	10,837	22.73%	22.73%	—
Shenzhen Fudekang Electronics Company Limited	1,800	2,942	400	3,342	30.00%	30.00%	—
Nationz Technologies Inc.	31,559	540,495	(540,495)	—	13.50%	13.50%	10,880
KAZNURTEL Limited Liability Company	3,988	2,477	—	2,477	49.00%	49.00%	—
Wuxi Kaier Technology Company Limited	7,145	12,375	6,318	18,693	42.64%	42.64%	—
Shenzhen Weigao Semiconductor Company Limited	4,000	4,663	340	5,003	40.00%	40.00%	—
Shenzhen Decang Technology Company Limited	750	18,683	472	19,155	30.00%	30.00%	—
深圳市聚飛光電有限公司	4,500	39,524	8,840	48,364	21.62%	21.62%	—
Shenzhen Smart Electronics Company Limited	7,051	9,338	(800)	8,538	30.00%	30.00%	—
北京中鼎盛安科技有限公司	1,960	779	(155)	624	49.00%	49.00%	—
思卓中興(杭州)科技有限公司	22,845	2,314	19,285	21,599	49.00%	49.00%	—
上海泰捷通信技術有限公司	4,000	5,203	(20)	5,183	40.00%	40.00%	—
上海中興群力信息科技有限公司	2,000	1,967	(14)	1,953	40.00%	40.00%	—
Zhongxing Energy Company Limited	300,000	261,922	(15,102)	246,820	23.26%	23.26%	—
廣州市鴻昌隆實業有限公司	432	432	40	472	35.00%	35.00%	—
深圳市偉文電氣有限公司	175	130	—	130	30.00%	30.00%	—
上海與德通訊技術有限公司	2,000	2,000	(333)	1,667	20.00%	20.00%	—
Nanjing Piaoxun Network Technology Company Limited	533	533	—	533	61.00%	20.00%	—
ZTE Software Technology (Nanchang) Company Limited	4,500	—	—	—	30.00%	30.00%	—
		915,734	(520,344)	395,390			10,880

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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 adjustments	Closing balance
Cost					
Buildings	3,836,137	6,392	(37,582)	(1,200)	3,803,747
Freehold land	—	94,173	—	—	94,173
Electronic equipment	2,908,652	397,587	(138,455)	(6,928)	3,160,856
Machinery equipment	2,739,926	248,953	(70,829)	(30,734)	2,887,316
Vehicles	354,919	29,247	(18,855)	(920)	364,391
Other equipment	139,668	35,031	(1,690)	1,397	174,406
	9,979,302	811,383	(267,411)	(38,385)	10,484,889
Accumulated depreciation					
Buildings	469,203	76,538	(16,363)	(799)	528,579
Freehold land	—	—	—	—	—
Electronic equipment	1,544,362	227,077	(115,686)	(2,539)	1,653,214
Machinery equipment	1,246,411	141,108	(54,005)	(9,784)	1,323,730
Vehicles	150,096	18,447	(9,998)	(446)	158,099
Other equipment	45,725	23,439	(1,167)	141	68,138
	3,455,797	486,609	(197,219)	(13,427)	3,731,760
Net book value					
Buildings	3,366,934	(70,146)	(21,219)	(401)	3,275,168
Freehold land	—	94,173	—	—	94,173
Electronic equipment	1,364,290	170,510	(22,769)	(4,389)	1,507,642
Machinery equipment	1,493,515	107,845	(16,824)	(20,950)	1,563,586
Vehicles	204,823	10,800	(8,857)	(474)	206,292
Other equipment	93,943	11,592	(523)	1,256	106,268
	6,523,505	324,774	(70,192)	(24,958)	6,753,129

Depreciation for the six months ended 30 June 2011 amounted to RMB486,609,000 (Six months ended 30 June 2010: RMB409,647,000). For the six months ended 30 June 2011, transfer from construction in progress to fixed assets amounted to RMB302,166,000 (Six months ended 30 June 2010: RMB168,085,000) at cost.

As at 30 June 2011, no houses or buildings were pledged as security for the preservation of properties subject to legal proceedings (31 December 2010: Nil);

As at 30 June 2011, machinery and equipment with a book value of RMB805,857,000 (31 December 2010: RMB370,285,000) were restricted as they were pledged by the subsidiary Congo-Chine Telecom S.A.R.L for loans.

As at 30 June 2011, there were no retired fixed assets or idle fixed assets pending disposal (31 December 2010: Nil).

As at 30 June 2011, 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 RMB2,520,351,000 (31 December 2010: RMB2,563,359,000); The Group is in the process of applying for freehold ownership certificate for land with a book value of 94,173,000 for its subsidiary ZTE Do Brasil LTDA.

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

14. Construction in progress

	Budget	Opening balance	Increase during the period	Transfer to fixed assets	Closing balance	Source of funds	Project completion (%) / progress
Liuxiangdong ZTE Industrial Park Phase I	1,000,000	70,152	1,480	(68,734)	2,898	Internal resources	100%
Nanjing R&D Centre	Nil	42,193	6,348	—	48,541	Internal resources	
Shanghai R&D Centre Phase II	Nil	23,808	134	(21,895)	2,047	Internal resources	
Xi'an Technology Park Phase II	Nil	4,571	72	(4,543)	100	Internal resources	
Staff quarters	Nil	623,928	186,838	—	810,766	Internal resources	
Sanya R&D Base project	Nil	1,123	771	—	1,894	Internal resources	
Equipment installation	Nil	62,868	77,433	(65,587)	74,714	Internal resources	
Xi'an District 2 Phase I	Nil	21,408	224,655	—	246,063	Internal resources	
Xi'an Technology Park Site A10	Nil	80,894	84,800	—	165,694	Internal resources	
Technology Park C3 R&D Center	Nil	38,362	26,881	—	65,243	Internal resources	
Heyuan R&D training Center Phase II	Nil	—	84	—	84	Internal resources	
Industrial Park North Phase II	Nil	—	80	—	80	Internal resources	
Others	Nil	177,432	24,371	(141,407)	60,396	Internal resources	
		1,146,739	633,947	(302,166)	1,478,520		

As at 30 June 2011, there was no capitalized interest amount in the balance of the construction in progress (31 December 2010: Nil).

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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	389,217	25,984	(32,631)	382,570
Technology know-how	7,184	3,428	(3,430)	7,182
Land use rights	827,574	2,566	—	830,140
Operating concessions	94,157	—	(960)	93,197
	1,318,132	31,978	(37,021)	1,313,089
Accumulated amortisation				
Software	308,508	14,656	(32,321)	290,843
Technology know-how	4,004	1,280	(1,065)	4,219
Land use rights	46,022	8,401	—	54,423
Operating concessions	61,986	1,033	(17)	63,002
	420,520	25,370	(33,403)	412,487
Net book value				
Software	80,709	11,328	(310)	91,727
Technology know-how	3,180	2,148	(2,365)	2,963
Land use rights	781,552	(5,835)	—	775,717
Operating concessions	32,171	(1,033)	(943)	30,195
	897,612	6,608	(3,618)	900,602
Provision for impairment				
Software	—	—	—	—
Technology know-how	—	—	—	—
Land use rights	6,322	—	—	6,322
Operating concessions	—	—	—	—
	6,322	—	—	6,322
Carrying value				
Software	80,709	11,328	(310)	91,727
Technology know-how	3,180	2,148	(2,365)	2,963
Land use rights	775,230	(5,835)	—	769,395
Operating concessions	32,171	(1,033)	(943)	30,195
	891,290	6,608	(3,618)	894,280

At 30 June 2011, no intangible assets were subject to ownership restriction (31 December 2010: RMB2,444,000).

As at 30 June 2011, the Group was in the process of obtaining the land use rights certificate of land blocks located in Shenzhen, Sanya and Xi'an, with a net carrying value of approximately RMB492,415,000 (31 December 2010: RMB497,717,000).

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

15. Intangible assets (continued)

Deferred development costs are analysed as follows:

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Handsets	187,049	39,681	37,764	188,966
System products	1,279,455	362,498	82,250	1,559,703
	1,466,504	402,179	120,014	1,748,669

For the six months ended 30 June 2011, deferred development costs accounted for 10% of total research and development costs (Six months ended 30 June 2010: 12%).

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 2011	31 December 2010
Deferred tax assets		
Unrealised profits arising on consolidation	126,787	103,176
Provision for impairment in inventory	54,447	48,458
Foreseeable contract losses	12,231	12,231
Provision for warranties and returned goods	69,072	69,452
Provision for retirement benefits	7,004	6,985
Deductible tax losses	180,233	180,796
Amortisation of intangible assets	3,235	3,235
Overseas taxes pending deductions	212,608	230,912
	665,617	655,245
Deferred tax liabilities		
Changes in fair value of derivative financial instrument	(4,872)	(23,119)
Gain on deemed disposal of an associates	(66,048)	(66,048)
	(70,920)	(89,167)

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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		Exchange rate difference	Closing balance
			Write-back	Write-off		
Bad debt provision	2,182,947	300,968	(30,228)	(1,518)	(1,221)	2,450,948
Including: Trade receivables	2,089,518	300,968	(26,889)	(1,518)	(3,397)	2,358,682
Long term receivables	93,429	—	(3,339)	—	2,176	92,266
Provision for impairment of inventories	716,779	119,175	(103,198)	(1,507)	1,688	732,937
Provision for impairment of intangible assets	6,322	—	—	—	—	6,322
	2,906,048	420,143	(133,426)	(3,025)	467	3,190,207

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.

18. Short-term loans

		30 June 2011		31 December 2010		
		Original currency	RMB equivalent	Original currency	RMB equivalent	
Credit loans	RMB	2,965,568	2,965,568	1,199,324	1,199,324	
	USD	1,073,352	6,946,308	401,427	2,658,531	
	EUR	3,000	28,084	1,100	9,687	
	JPY	500,000	40,121	—	—	
	INR	1,005,794	144,840	—	—	
Guaranteed loans	RMB	—	—	10,000	10,000	
Secured loans	RMB	—	—	7,500	7,500	
Bill discounted loans	RMB	3,768,649	3,768,649	382,527	382,527	Note1
Pledged loans	RMB	27,000	27,000	461,360	461,360	Note2
	USD	268,828	1,739,748	270,811	1,793,500	Note2
	EUR	11,502	107,671	6,357	55,984	Note2
		15,767,989		6,578,413		

As at 30 June 2011, the annual interest rate of the above loans ranged from 2.00%–11.85% (31 December 2010: 2.00%–7.00%).

Note 1 Bill discounted loans are loans discounted by bank acceptance bills, commercial acceptance bills and letter of credit.

Note 2 Pledged loans were loans secured by trade receivables.

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

19. Bills payable

	30 June 2011	31 December 2010
Commercial acceptance bills	3,583,738	7,117,633
Bank acceptance bills	6,872,269	2,938,844
	10,456,007	10,056,477

As at 30 June 2011, bills payable due to shareholders holding 5% or more in the voting shares or related parties amounted to RMB26,345,000 (31 December 2010: RMB79,294,000). 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 2011, trade payables included amounts due to shareholders or related parties holding 5% or more in the voting shares or related parties amounting to RMB210,524,000 (31 December 2010: RMB266,058,000). Please refer to Notes VI "The relationships and transactions with related parties".

21. Advances from customers

	30 June 2011	31 December 2010
Advances from customers for system project work	1,638,196	1,923,303
Advances from customers for terminals	762,797	821,391
	2,400,993	2,744,694

As at 30 June 2011, advance from customers included advance from shareholders holding 5% or more in the voting shares or related parties amounting to RMB9,948,000 (31 December 2010: RMB9,965,000). Please refer to Note VI. "The relationships and transactions with related parties".

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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	2,468,214	4,824,571	(6,042,683)	1,250,102
Staff welfare	26,076	294,462	(296,501)	24,037
Social insurance	16,979	654,776	(662,542)	9,213
Including: Pension insurance	10,568	445,499	(448,468)	7,599
Medical insurance	6,295	158,120	(162,972)	1,443
Unemployment insurance	207	33,107	(33,058)	256
Working injuries insurance	(58)	7,912	(7,918)	(64)
Maternity Insurance	(33)	10,138	(10,126)	(21)
Housing funds	34,470	263,079	(256,235)	41,314
Labour union fund and employee education fund	552,188	152,754	(76,910)	628,032
	3,097,927	6,189,642	(7,334,871)	1,952,698

23. Tax payable

	30 June 2011	31 December 2010
Value-added tax ("VAT")	(1,630,605)	(1,356,866)
Business tax	72,046	78,128
Income tax	659,357	885,728
PRC Tax	282,296	433,483
Overseas Tax	377,061	452,245
Individual income tax	233,067	86,720
City maintenance and construction tax	11,937	18,738
Education surcharge	13,141	16,019
Others	(125,086)	(49,812)
	(766,143)	(321,345)

24. Dividend payable

	30 June 2011	31 December 2010
Dividend payable to holders of restricted shares	1,500	97
Dividend payable to holders of unrestricted shares	839,671	—
Dividend payable to minority shareholders	314,542	136,205
	1,155,713	136,302

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

25. Other payables

	30 June 2011	31 December 2010
Employee subscriptions under the share incentive scheme	276,266	276,266
Accruals	882,987	554,359
Contributions to staff housing	669,893	680,000
Payables to external parties	1,905,381	1,089,244
Deposits	47,449	20,026
Factored interests payable	89,580	112,169
Payables to employees	212,878	194,925
Others	122,225	49,336
	4,206,659	2,976,325

As at 30 June 2011, other payables include amounts due to shareholders or related parties holding 5% or more in the voting shares amounting to RMB14,021,000 (31 December 2010: RMB703,000). Please refer to Notes VI. "The relationships and transactions with related parties".

26. Provisions

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Provision for penalties	45,617	1,714	(2,639)	44,692
Provision for returned handsets	45,524	11,141	(456)	56,209
Provision for warranties	169,552	126,966	(122,698)	173,820
	260,693	139,821	(125,793)	274,721

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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 2011	31 December 2010
Long-term loans due within one year	886,055	1,322,817

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

		30 June 2011		31 December 2010		
		Original currency	RMB equivalent	Original currency	RMB equivalent	
Credit loans	RMB	—	—	685,000	685,000	
	USD	110,000	711,876	70,000	463,589	
Guaranteed loans	RMB	25,074	25,074	20,000	20,000	Note 1
Secured loans	USD	23,040	149,105	23,280	154,176	Note 2
	INR	—	—	350	52	
			886,055		1,322,817	

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

Note 2 The secured loans included loans granted to Closed Joint Stock Company TK Mobile and secured by its existing network equipment and assets to be generated in future under the loan agreement; as well as loans granted to Congo-Chine Telecom S.A.R.L. (Congo-Chine) and secured by a 51% equity interest in Congo-Chine held by the Company and fixed assets purchased with loans under the loan agreement. Please refer to Note V.13.

As at 30 June 2011, the top five long-term loans in terms of amount were as follows:

	Loan Drawdown	Loan Maturity	Type	Interest rate (%)	30 June 2011		31 December 2010	
					Original currency	RMB equivalent	Original currency	RMB equivalent
Bank of China	2009.1.20	2012.1.20	USD	Approximately 3%	50,000	323,580	50,000	331,135
Bank of China	2009.3.12	2012.3.12	USD	Approximately 3%	40,000	258,864	40,000	264,908
Bank of China	2010.4.21	2012.4.21	USD	Approximately 3%	20,000	129,432	20,000	132,454
China Development Bank	2007.6.30	2012.5.21	USD	Approximately 3%	6,300	40,771	6,300	41,723
China Development Bank	2007.6.30	2011.11.21	USD	Approximately 3%	5,040	32,617	5,040	33,378

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

28. Long-term loans

		30 June 2011		31 December 2010	
		Original currency	RMB equivalent	Original currency	RMB equivalent
Credit loans	RMB	500,000	500,000	—	—
	USD	—	—	110,000	728,497
Guaranteed loans	RMB	236,403	236,403	248,143	248,143
Secured loans	USD	101,640	657,773	112,140	742,670
			1,394,176		1,719,310

Note 1 The guaranteed loans were pledged by a 51% equity interest in Congo-Chine held by the Company.

Note 2 The secured loans included loans granted to Closed Joint Stock Company TK Mobile and secured by its existing network equipment and assets to be generated in future under the loan agreement; as well as loans granted to Congo-Chine Telecom S.A.R.L. (Congo-Chine) and secured by a 51% equity interest in Congo-Chine held by the Company and fixed assets purchased with loans under the loan agreement.

As at 30 June 2011, the top five long-term loans in terms of amount were as follows:

	Loan Drawdown	Loan Maturity	Type	Interest rate (%)	30 June 2011		31 December 2010	
					Original currency	RMB equivalent	Original currency	RMB equivalent
The Export-Import Bank of China	2011.2.1	2013.2.1	RMB	Approximately 5%	500,000	500,000	—	—
China Development Bank	2006.10.15	2016.10.15	USD	Approximately 3%	38,640	250,063	38,640	255,901
China Development Bank	2007.6.30	2015.5.21	USD	Approximately 3%	25,200	163,084	25,200	166,892
The Export-Import Bank of China	2007.3.9	2021.9.21	RMB	Approximately 5%	125,000	125,000	125,000	125,000
China Development Bank	2008.6.27	2015.5.21	USD	Approximately 3%	17,850	115,518	17,850	118,215

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

29. Bonds cum warrants

	30 June 2011
Opening balance	3,755,790
Interest expenses	79,982
Interest payments	(32,000)
Closing balance	3,803,772

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. As the Company distributed share dividend and issued bonus shares during 2008 and 2009, the exercise price of the warrants was adjusted to RMB42.394 per share and the exercise ratio was adjusted to the subscription of 0.922 A share for each warrant held.

As at the close of trading on 12 February 2010, a total of 23,348,590 “中興ZXC1” warrants were exercised and 21,523,441 new shares were issued as a result.

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

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

30. Other non-current liabilities

	30 June 2011	31 December 2010
Long-term financial guarantee contract	3,689	3,689
Provision for retirement benefits	42,847	43,332
Factored interest payable in relation to the derecognition of trade receivables	342,020	392,211
	388,556	439,232

31. Share capital

	Opening balance	Change during the period Note 1	Closing balance
Restricted shares			
Domestic natural person shares	60,142	—	60,142
Senior management shares	6,776	165	6,941
Total number of restricted shares	66,918	165	67,083
Unrestricted shares			
RMB Ordinary Shares	2,275,159	(165)	2,274,994
Overseas listed foreign shares	524,655	—	524,655
Total number of unrestricted shares	2,799,814	(165)	2,799,649
Total number of shares	2,866,732	—	2,866,732

Note 1: In accordance with relevant domestic regulations, shares held by Directors, Supervisors or senior management shall be under lock-up by proportion.

32. Capital reserves

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium	8,487,495	—	—	8,487,495
Changes in shareholders' equity of investee other than net of gains/losses under equity method and other capital reserves	41,260	—	—	41,260
Share-based payment (Note 1)	462,220	34,670	—	496,890
Capital injection from government	80,000	—	—	80,000
	9,070,975	34,670	—	9,105,645

Note 1: In the six months ended 30 June 2011, equity-sold share-based payments with a total amount of RMB34,670,000 were recognized as current expenses.

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

33. Restricted shares remaining in lock-up

In July 2009, all of the 85,006,813 Subject Shares under the Share Incentive Scheme of the Company were registered as share capital on a one-off basis. Unlocking conditions in respect of 15,269,290 shares, being 20% of the First Award had been fulfilled and the 14,559,708 shares were listed on 23 July 2009. Unlocking conditions in respect of 35% of the First Award had been fulfilled and 26,452,094 shares were listed on 4 June 2010. The proposals of profit distribution and capitalisation from capital reserve for 2009 were implemented on 24 June 2010, whereby 5 shares were issued for every 10 shares held. As a result, registered Subject Shares for which unlocking conditions had not been fulfilled was adjusted to 64,928,143 shares accordingly. Unlocking conditions in respect of 20% of the Second Award had been fulfilled and 2,520,957 shares were listed on 15 December 2010. After deducting the Subject Shares under the Unlocking, there were 62,407,186 registered Subject Shares for which unlocking conditions had not been fulfilled as at 30 June 2011, among which 542,778 Subject Shares would be lapsed. 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. Accordingly, the amount of RMB276,266,000, 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	1,537,512	—	—	1,537,512

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

34. Surplus reserves (continued)

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.

35. Retained profits

	30 June 2011
Retained profits at the beginning of the period	9,222,387
Net profit	769,271
Less: Statutory surplus reserves	—
Proposed final dividend	—
Difference between actual distribution and proposed dividend for the previous year	—
Retained profits at the end of the year	9,991,658

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.

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

36. Operating revenue and costs

Operating revenue is analysed as follows:

	Six months ended 30 June 2011	Six months ended 30 June 2010
Revenue	37,196,430	30,547,840
Other income	140,165	177,580
	37,336,595	30,725,420

Operating cost is analysed as follows:

	Six months ended 30 June 2011	Six months ended 30 June 2010
Costs of sales	26,128,570	20,342,160
Other operating expenses	115,161	104,754
	26,243,731	20,446,914

Principal operations by product:

	Six months ended 30 June 2011		Six months ended 30 June 2010	
	Revenue	Cost	Revenue	Cost
Networks	20,522,957	13,458,295	19,000,326	11,772,902
Terminals	11,214,730	9,013,213	7,790,253	6,020,790
Telecommunications software system, services and other products	5,458,743	3,657,062	3,757,261	2,548,468
	37,196,430	26,128,570	30,547,840	20,342,160

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

36. Operating revenue and costs (continued)

Principal operations by geography:

	Six months ended 30 June 2011		Six months ended 30 June 2010	
	Revenue	Cost	Revenue	Cost
The PRC	16,413,551	10,847,956	15,318,596	10,074,780
Asia (excluding the PRC)	6,788,539	5,261,543	5,241,223	3,924,321
Africa	5,003,829	2,932,981	4,456,480	2,126,649
Europe, America and Oceania	8,990,511	7,086,090	5,531,541	4,216,410
	37,196,430	26,128,570	30,547,840	20,342,160

Sales to the top five customers of the Group generated revenue of RMB12,703,922,000 in the first half of 2011 (first half of 2010: RMB14,408,771,000), accounting for 34.15% (first half of 2010: 47.17%) of the operating revenue of the Group respectively.

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 2011	Six months ended 30 June 2010
Business tax	656,941	368,533
City maintenance and construction tax	144,443	18,080
Education surcharge	66,152	28,589
Others	28,865	52,310
	896,401	467,512

For tax standards, please refer to Note III, "Taxation".

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

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

	Six months ended 30 June 2011	Six months ended 30 June 2010
Equity instruments held for trading	(182,131)	—
Derivative financial instruments	(54,420)	77,926
Total	(236,551)	77,926

40. Investment income

	Six months ended 30 June 2011	Six months ended 30 June 2010
Long-term equity investment income under equity method	9,407	22,197
Long-term equity investment income under cost method	1,060	1,781
Investment income arising from the disposal of derivative financial instruments	66,529	—
Investment income arising from the disposal of long term equity investment	1,088,293	—
Total	1,165,289	23,978

As at 30 June 2011, the Company was not subject to significant restrictions in remitting its investment income.

41. Finance expenses

	Six months ended 30 June 2011	Six months ended 30 June 2010
Interest expenses	509,670	393,926
Less: Interest income	51,913	42,800
Loss (gain) on exchange	(279,642)	271,470
Cash discounts and interest subsidy	68,141	62,567
Bank charges	194,229	55,472
Total	440,485	740,635

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

42. Asset impairment losses

	Six months ended 30 June 2011	Six months ended 30 June 2010
Bad debt provisions	270,740	254,587
Provisions/(reversal) for impairment of inventories	15,977	(102,498)
	286,717	152,089

43. Non-operating income/Non-operating expenses

Non-operating income

	Six months ended 30 June 2011	Six months ended 30 June 2010	The amount in the nonrecurring profit/loss of the period
Refund of VAT on software products (Note 1)	363,034	553,281	—
Others (Note 2)	266,085	190,530	117,381
	629,119	743,811	117,381

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. The policy expired during the reporting period. Revenue of the Group recognised during the reporting period related to the refund upon payment of VAT attributable to the previous year but for which approval was received during the period.

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

Non-operating expenses

	Six months ended 30 June 2011	Six months ended 30 June 2010	The amount in the nonrecurring profit/loss of the period
Compensation	31,199	6,071	31,199
Loss on disposal of non-current assets	5,087	10,222	5,087
Others	3,828	8,545	3,828
	40,114	24,838	40,114

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

44. Income tax

	Six months ended 30 June 2011	Six months ended 30 June 2010
Current income tax	465,508	445,512
Deferred income tax	(29,089)	(45,941)
	436,419	399,571

Income tax and total profit reconciled as follows:

	Six months ended 30 June 2011	Six months ended 30 June 2010
Total profit	1,272,749	1,392,859
Tax at statutory tax rate (Note 1)	318,187	348,215
Effect of different tax rates applicable to certain subsidiaries	(69,100)	(255,316)
Profits and losses attributable to jointly-controlled entities and associates	(2,352)	—
Income not subject to tax	(224,699)	(132,419)
Tax reduction/exemption	(16,384)	(70,573)
Expenses no deductible for tax	200,748	222,821
Adjustments to current taxes of previous periods	63,739	163,984
Utilisation of deductible tax losses from previous years	(87,114)	(43)
Unrecognised tax losses	253,394	122,902
Tax amounts at the Group's effective tax rates	436,419	399,571

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

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

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.

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

	Six months ended 30 June 2011	Six months ended 30 June 2010
Earnings		
Net profit attributable to ordinary shareholders of the Company for the period	769,271	877,489
Shares		
Weighted average number of ordinary shares of the Company (Note 1)	2,804,325	2,736,790
Diluting effect — weighted average number of ordinary shares:		
Restricted Shares under share incentive scheme (Note 2)	61,864	64,928
Adjusted weighted average number of ordinary shares of the Company	2,866,189	2,801,718

Note 1: During the reporting period, 62,407,186 restricted shares subject to lock-up were excluded from the outstanding ordinary shares in issue.

Note 2: As the valid shares under the Phase I Share Incentive Scheme of the Company remaining in lock-up gave rise to potentially dilutive ordinary shares of 61,864,408 shares and 64,928,143 shares for the reporting period and the same period of 2010, respectively, diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factors.

Notes to Financial Statements

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

46. Other comprehensive income

	Six months ended 30 June 2011	Six months ended 30 June 2010
Differences arising from foreign currency translation	(2,303)	(135,085)

47. Notes to cash flow statement

	Six months ended 30 June 2011	Six months ended 30 June 2010
Cash received relating to other operating activities:		
Interest income	51,913	42,800
Cash paid relating to other operating activities:		
Selling and distribution costs	3,076,496	2,590,777
Administrative expenses and research and development costs	1,304,256	1,032,044

Notes to Financial Statements

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

48. Supplemental information on cash flow statement

Reconciliation of net profit to cash flows from operating activities:

	Six months ended 30 June 2011	Six months ended 30 June 2010
Net profit	836,330	993,288
Add: Provision for impairment of assets	286,717	152,089
Depreciation of fixed assets	486,609	409,647
Amortisation of intangible assets and deferred development costs	145,384	91,591
Amortisation of long-term deferred assets	14,911	4,417
Loss on disposal of fixed assets, intangible assets and other long-term assets	5,087	10,222
Loss/(gain) from changes in fair value	236,551	(77,926)
Finance expenses	230,028	665,396
Investment income	(1,165,289)	(23,978)
Decrease/(increase) in deferred tax assets	(10,372)	119,422
Decrease in deferred tax liabilities	(18,247)	(373)
Increase in inventories	(3,058,536)	(1,915,847)
Increase in operating receivables	(5,991,255)	(6,207,397)
Increase in operating payables	2,614,115	2,103,486
Share incentive scheme costs	34,670	79,478
Decrease/(increase) in cash subject to ownership restrictions	(818,056)	(87,827)
Net cash flows from operating activities	(6,171,353)	(3,684,312)

Cash and cash equivalents:

	Six months ended 30 June 2011	Six months ended 30 June 2010
Cash		
Including: Cash on hand	7,840	13,920
Bank deposit readily available	14,859,690	12,271,616
Closing balance of cash and cash equivalents	14,867,530	12,285,536

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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	30.76%	30.76%	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)
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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
Wuxi 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	Related party 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
北京協力超越科技有限公司	Subsidiary controlled by shareholders of the Company's parent company	76678817-X
三河中興發展有限公司	Subsidiary of a company whose chairman concurrently acting as Chairman of the Company	78409578-0
三河中興物業服務有限公司	Subsidiary of a company whose chairman concurrently acting as Chairman of the Company	67854891-8
南京中興群力信息科技有限公司	Subsidiary of the Company's associate	69837419-3
中興能源(內蒙古)有限公司	Subsidiary of the Company's associate	69594973-X
Zhongxing Energy (Shenzhen) Company Limited	Subsidiary of the Company's associate	56420239-6

Notes to Financial Statements

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

5. Major transactions between the Group and related parties

(1) Transactions of goods with related parties

Sales of goods to related parties:

	Six months ended 30 June 2011		Six months ended 30 June 2010	
	Amount	Percentage (%)	Amount	Percentage (%)
Shenzhen Weigao Semiconductor Company Limited	730	—	43,967	0.14
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	150	—	441	—
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	1,498	—	80	—
Shenzhen Zhongxing Information Company Limited	5,631	0.02	3,620	0.01
Wuxi Zhongxing Intelligent Transportation Systems Limited*	1,494	—	4,218	0.01
Zhongxing Software Technology (Nanchang) Company Limited	59	—	—	—
南京中興群力信息科技有限公司	5,658	0.02	—	—
普興移動通訊設備有限公司	316,956	0.85	—	—
中興能源(內蒙古)有限公司	73	—	—	—
	332,249	0.89	52,326	0.16

For the six months ended 30 June 2011, sales to related parties accounted for 0.89% of the Group's total sales. (Six months ended 30 June 2010: 0.16%).

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

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

(1) Transactions of goods with related parties (continued)

Purchase of goods from related parties:

	Six months ended 30 June 2011		Six months ended 30 June 2010	
	Amount	Percentage (%)	Amount	Percentage (%)
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	175,654	0.80	155,882	0.91
Shenzhen Fudekang Electronics Company Limited	18,391	0.09	13,017	0.08
Nationz Technologies Inc.**	21,224	0.10	42,288	0.25
Wuxi KaiEr Technology Company Limited	46,044	0.21	15,578	0.09
Shenzhen Weigao Semiconductor Company Limited	20,528	0.09	16,326	0.10
Shenzhen Decang Technology Company Limited	18,323	0.08	24,567	0.14
深圳市聚飛光電有限公司	4,990	0.02	4,421	0.03
Shenzhen Smart Electronics Company Limited	361	—	415	—
Shenzhen Zhongxing Xinyu FPC Company Limited	9,559	0.04	7,721	0.05
Mobi Antenna Technologies (Shenzhen) Company Limited	131,941	0.59	92,394	0.54
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	62,556	0.28	78,010	0.46
Zhongxing Xinzhou Complete Equipment Company Limited	6,468	0.03	14,105	0.08
Shenzhen Zhongxing Information Company Limited	323	—	553	—
Shenzhen Shenglongfeng Industrial Company Limited	12,309	0.06	6,620	0.04
Xi'an Microelectronics Technology Research Institute	995	—	1,939	0.01
Zhongxing Software Technology (Nanchang) Company Limited	4	—	—	—
Shenzhen Hongde Battery Company Limited***	—	—	1,578	0.01
	529,670	2.39	475,414	2.79

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

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

(1) Transactions of goods with related parties (continued)

For the six months ended 30 June 2011, purchases from related parties accounted for 2.39% of the Group's total purchases (Six months ended 30 June 2010: 2.79%).

- * Beijing Zhongxing Intelligent Transportation Systems Limited has moved and its name is changed to Wuxi Zhongxing Intelligent Transportation Systems Limited;
- ** Nationz Technologies Inc. was reclassified from an associate of the Company to financial assets held for trading of the Company following the Company's sell-down of its shares from May 2011. The above included only transactions occurring when the company was an associate of the Company;
- *** Following an increase in capital, Shenzhen Hongde Battery Company Limited, previously an associated of the Company, became an available-for-sale financial assets of the Company in April 2010. The above included only transactions occurring when the company was an associate of the Company;

Purchase of properties from related parties:

	Six months ended 30 June 2011	Six months ended 30 June 2010
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	—	152,900

On 8 April 2010, Xi'an Zhongxing New Software Company Limited acquired a property from Shenzhen Zhongxingxin Telecommunications Equipment Company Limited. The property included the land use rights expiring on 6 July 2054 for a land block with a total area of 52,374.20 square metres situated on the eastern side of Zhangba II Road in Gaoxin Area, Xi'an, Shaanxi, the PRC; two buildings erected thereon with a total gross area of 42,690.34 square metres and three plants under construction thereon with a total area of 56,999.81 square metres.

(2) Leasing with related parties:

Lease of properties to related parties

Six months ended 30 June 2011

	Property leased	Starting date	Ending date	Lease gain
Shenzhen Zhongxing Development Company Limited	Office	1/1/2011	6/30/2011	848
Zhongxing Energy (Shenzhen) Company Limited	Office	1/1/2011	6/30/2011	122
北京協力超越科技有限公司	Office	1/1/2011	6/30/2011	19

There was no leasing of assets to related parties in the six months ended 30 June 2010.

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

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

(2) Leasing with related parties: (continued)

Lease of properties from related parties:

Six months ended 30 June 2011

	Property leased	Starting date	Ending date	Lease cost
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Office	4/18/2007	4/17/2013	4,414
Shenzhen Zhongxing Development Company Limited	Office	4/18/2007	4/17/2013	20,291
Chongqing Zhongxing Development Company Limited	Office	10/23/2008	10/22/2011	2,387
三河中興發展有限公司	Office	3/18/2011	3/17/2013	441
三河中興物業服務有限公司	Office	3/18/2011	3/17/2013	44

Six months ended 30 June 2010

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

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

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

(3) Guarantees by/for related parties

Guarantees by related parties

Six months ended 30 June 2011

Nil

Six months ended 30 June 2010

	Guarantee amount	Effective date	Expiry date	Completed
Shenzhen Zhongxing WXT Equipment Company Limited	8,000	2009/8/25	2010/8/25	Yes

(4) Other major related transactions

	Six months ended 30 June 2011		Six months ended 30 June 2010	
	Amount	Percentage (%)	Amount	Percentage (%)
Remuneration of key management personnel	3,899	0.07%	3,535	0.07%

Notes:

- (i) Commercial transactions with related parties: Commercial transactions with related parties was conducted by the Group at market price during the period.
- (ii) Leasing property from related parties: Office space was leased to the aforesaid related parties by the Group during the period and lease income of RMB989,000 was recognized in accordance with relevant lease contracts (Six months ended 30 June 2010: Nil). Office space was leased from related parties by the Group during the period and lease costs of RMB27,577,000 was recognized in accordance with relevant lease contracts (Six months ended 30 June 2010: RMB31,327,000).

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

6. Balances of amounts due from/to related parties

Item	Name of related parties	30 June 2011	31 December 2010
Bills receivable	南京中興群力信息科技有限公司	1,460	—
	Wuxi Zhongxing Intelligent Transportation Systems Limited	2,400	—
		3,860	—
Trade receivables	Nationz Technologies Inc.	—	202
	ZTE Software Technology (Nanchang) Company Limited	8	1
	Wuxi Zhongxing Intelligent Transportation Systems Limited	1,683	3,500
	Shenzhen Zhongxing Information Company Limited	10,754	4,185
	Shenzhen Weigao Semiconductor Company Limited	33	3,774
	普興移動通訊設備有限公司	206,587	—
	219,065	11,662	
Prepayments	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	484	484
	Shenzhen Zhongxing Information Company Limited	37	1,650
		521	2,134
Dividends receivable	Shenzhen Zhongxing Xinyu FPC Company Limited	1,875	1,875
		1,875	1,875
Bills payable	Shenzhen Fudekang Electronics Company Limited	4,614	621
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	—	60,000
	Wuxi KaiEr Technology Company Limited	4,378	11,097
	Shenzhen Weigao Semiconductor Company Limited	2,707	927
	Shenzhen Decang Technology Company Limited	11,614	4,689
	Shenzhen Smart Electronics Company Limited	395	272
	Shenzhen Zhongxing Xinyu FPC Company Limited	1,869	554
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	768	725
	Mobi Antenna Technologies (Shenzhen) Company Limited	—	409
		26,345	79,294

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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 2011	31 December 2010
Trade payables	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	87,854	92,772
	Shenzhen Fudekang Electronics Company Limited	4,998	6,546
	Nationz Technologies Inc.	—	12,967
	Wuxi KaiEr Technology Company Limited	12,001	10,276
	Shenzhen Weigao Semiconductor Company Limited	8,474	3,482
	Shenzhen Decang Technology Company Limited	9,246	11,196
	深圳市聚飛光電有限公司	1,786	2,084
	Shenzhen Smart Electronics Company Limited	151	291
	Shenzhen Zhongxing Xinyu FPC Company Limited	3,197	4,611
	Mobi Antenna Technologies (Shenzhen) Company Limited	48,752	83,107
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	12,722	19,024
	Zhongxing Xinzhou Complete Equipment Company Limited	11,263	12,364
	Shenzhen Zhongxing WXT Equipment Company Limited	327	327
	Shenzhen Zhongxing Information Company Limited	3,074	2,820
	Shenzhen Gaodonghua Communication Technology Company Limited	176	176
	Shenzhen Shenglongfeng Industrial Company Limited	6,042	3,646
	Xi'an Microelectronics Technology Research Institute	461	369
		210,524	266,058

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

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

<u>Item</u>	<u>Name of related parties</u>	<u>30 June 2011</u>	<u>31 December 2010</u>
Advanced receipts	ZTE Software Technology (Nanchang) Company Limited	5,860	5,851
	Xi'an Microelectronics Technology Research Institute	107	2
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	2,111	2,954
	南京中興群力信息科技有限公司	480	—
	Wuxi Zhongxing Intelligent Transportation Systems Limited	1,390	1,158
		9,948	9,965
Other payables	Shenzhen Zhongxing Xinyu FPC Company Limited	31	—
	Zhongxing Xinzhou Complete Equipment Company Limited	12,380	—
	Shenzhen Zhongxing WXT Equipment Company Limited	12	12
	Shenzhen Zhongxing Information Company Limited	48	48
	Shenzhen Zhongxing Development Company Limited	215	215
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	1,335	417
	Zhongxing Energy Company Limited	—	11
		14,021	703

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

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VII. SHARE-BASED PAYMENT

1. Overview

	30 June 2011	31 December 2010
Total amount of employee service in consideration of share-based payment	1,106,794	1,106,794
	30 June 2011	31 December 2010
Equity-settled share-based payments are as follows:		
Accumulated amount of equity-settled share-based payments in capital reserves	496,890	462,220
Total costs of equity-settled share-based payments recognised for the period	34,670	158,957

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.

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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.

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VII. SHARE-BASED PAYMENT (CONTINUED)

2. Share incentive scheme (continued)

The fair value of the Subject Shares was arrived at based on the market price of the Company's shares on the date of grant using the Black-Scholes model, which ranged from RMB21.28 to RMB36.81 per share. The aggregate fair value of the Subject Shares amounting to RMB1,106,794,000 is charged to profit and loss and the capital reserve as costs and expenses from the date of grant to the date on which the unlocking conditions are being fulfilled and the shares may be circulated according to the law. The Group has recognised an amount of RMB34,670,000 (six months ended 30 June 2010: RMB79,478,000) at Share Incentive Scheme expenses for the reporting period and an aggregate amount of RMB1,092,920,000 (31 December 2010: RMB1,058,250,000) has been recognised in expenses as at the end of the reporting period on an accumulative basis.

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 on July 2009. 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. For details of the unlocking of Subject Shares, please refer to Note 33.

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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 RMB57,516,000). 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 RMB24,729,000) is to be paid by the Company. On the balance sheet date, the Company has made provisions for the amount. 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. According to the legal advice of the lawyer engaged by the Company, the litigation is likely to continue for a considerable amount of time. As at the date of approval of the financial statements, the Group had not made any payments of compensation pursuant to the aforesaid judgement. Based on the legal advice from the lawyer engaged by the Company, 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 Nanshan District People's 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 to the Nanshan District People's Court. As of now, court hearing for the second trial has been completed and the court has ordered trial of the case to be suspended pending the final judgement of the case of China Construction Fifth Division at the Intermediate Court. 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. 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. As of now the two trials have suspended. Based on the legal opinion furnished by the legal counsel engaged by the Company and the existing judgements and current progress of the case, it is difficult to ascertain the final outcome of this case at the present 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.

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VIII. CONTINGENT EVENTS (CONTINUED)

3. A lawsuit on breach of agreement and infringement of rights was instituted against the Company and its subsidiary ZTE (USA), Inc. ("ZTE (USA)") by Universal Telephone Exchange, Inc. ("UTE") at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE (USA) had violated a confidential agreement between UTE and ZTE (USA), for which UTE was seeking a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract as a result of inappropriate actions of the Company and ZTE (USA), for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. The compensation demanded by UTE as aforesaid amounted to USD50 million in aggregate. The Company's attorney filed a written response to the court denying UTE's charges against the Company and ZTE (USA). Meanwhile, the Company's attorney also disputed the jurisdiction of the said U.S. court over the Company. On 8 February 2011, UTE filed a Discovery Request in respect of the Company and ZTE (USA) in response to the dissent on jurisdiction raised by the Company, and the court gave permission to UTE to conduct investigations in respect of the issue. Our attorney disputed the Discovery Request filed by UTE and applied to the court for the lawsuit to be dismissed on the grounds that UTE's business license in Texas was terminated on 21 May 2010 and therefore, according to Texan laws, had no right to institute lawsuits in Texas or to require the Company to disclose any relevant information. On 29 March 2011, UTE pleaded the court to reject ZTE (USA)'s dissent and to rule in favour of UTE's rights to institute relevant legal actions. The case is currently pending court trial. Based on the legal opinion furnished by the legal counsel engaged by the Company and the existing judgements and current progress of the case, it is difficult to ascertain the final outcome of this case at the present stage.

4. Telefonaktiebolaget LM Ericsson (publ) ("Ericsson") instituted a lawsuit against ZTE (UK) LIMITED ("ZTE (UK)"), a wholly-owned subsidiary of the Company, alleging infringement on Ericsson's patent technologies by several handset models of ZTE (UK) and demanding ZTE (UK) to discontinue such act of infringement and compensate for Ericsson's losses. The Company filed a defense on 20 June 2011 and the case is currently pending trial to be scheduled by the court. On 1 April 2011, Ericsson applied to the Court of Rome for provisional injunction procedures against ZTE Italy S.r.l. ("ZTE Italy"), the subsidiary in Italy. Such request was rejected by the court, which ordered Ericsson to serve a claim on ZTE Italy. In response to the aforesaid claims, ZTE Italy submitted its defense to the court and requested the court to reject the litigation claim of the claimant. As at the end of the reporting period, the ruling of the court had not been officially served upon the two parties. On 14 April 2011 and 23 May 2011, Ericsson filed lawsuits against ZTE Deutschland GmbH ("ZTE Deutschland"), a wholly-owned subsidiary of the Company, with the district court of Dusseldorf and the district court of Mannheim in Germany, respectively, alleging infringement of Ericsson's patent technologies and demanding ZTE Deutschland to discontinue such act of infringement and compensate for Ericsson's losses. The local courts have initially set the amount in dispute in this case at EUR10.80 million and EUR2.275 million, respectively. ZTE Deutschland is currently preparing for its defense. Based on the legal opinion furnished by the legal counsel engaged by the Company and the existing judgements and current progress of the case, it is difficult to ascertain the final outcome of this case at the present stage. The Directors are of the view that the aforesaid case will not have any material and adverse impact on the financial conditions and results of operation of the Group for the current period.

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VIII. CONTINGENT EVENTS (CONTINUED)

5. On 5 April 2011, a certain customer in Ecuador filed an application for arbitration with the Business Arbitration Tribunal of Guayaquil, Ecuador, claiming quality problems existed in the works performed by the Company and demanding a total compensation amount of USD23.35 million from the Company, comprising USD22.25 million as reimbursement of the cost of network reconstruction and USD1.10 million as the cost for supervising and managing construction work quality of the entire network. In response to the demand for arbitration, the legal counsel engaged by the Company has submitted a defense in a timely manner and denied all allegations. Based on the legal opinion furnished by the legal counsel engaged by the Company and the existing judgements and current progress of the cases, it is difficult to ascertain the final outcome of this case at the present stage. The Directors are of the view that the aforesaid case will not have any material and adverse impact on the financial conditions and results of operation of the Group for the current period.
6. As at 30 June 2011, the Group had outstanding guarantees given to banks in respect of performance bonds amounting to RMB12,466,888,000.
7. As at 30 June 2011, the Group provided financial guarantee (including interests accruable) to independent customers for a maximum amount of RMB65,726,000 (31 December 2010: RMB66,179,000). The aforesaid guarantees will expire in September 2018 and December 2013 respectively.

Save as disclosed above, the Company and the Group had no other significant contingent liabilities as at 30 June 2011.

IX. COMMITMENTS

	30 June 2011	31 December 2010
Capital commitments		
Contracted but not provided for	881,913	747,546
Authorised by the Board but not yet contracted	20,015,194	14,227,386
	20,897,107	14,974,932
Investment commitments		
Contracted but performance not completed	1,650	76,171

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X. POST BALANCE SHEET DATE EVENTS

1. The plan of capitalisation of the capital reserve of the Company for 2010 was considered and passed at the 2010 Annual General Meeting held on 17 May 2011. The Company made a bonus issue of 2 shares for every 10 shares based on the Company's current total share capital of 2,866,731,684 shares. The equity distribution plan was completed on 7 July 2011.
2. On 8 July 2011, ZTE (H.K.) Limited ("ZTE (H.K.)") (as borrower) entered into a USD900 million syndicate loan agreement with 10 international banks including Bank of China (Hong Kong) Limited ("BOCHK") (as mandated lead arranger). In view of the future provision of loan facilities to ZTE (H.K.) by the loan syndicate pursuant to the terms and conditions of the syndicate loan agreement, the Company (as guarantor) entered, upon the request of the loan syndicate, into a guarantee agreement with BOCHK on 8 July 2011 to provide guarantee in favour of the loan syndicate to assure proper fulfillment of payments and all duties of ZTE (H.K.) under the syndicate loan agreement.
3. The unlocking of 60,532,063 Subjects Shares under the Third Unlocking of the Phase I Share Incentive Scheme of the Company was completed on 19 July 2011 and the listing and circulation of such shares commenced on 21 July 2011.
4. On 29 July 2011, the Company and ZTE (USA), the Company's subsidiary in the United States, received a statement of claim filed by a U.S. company, simultaneously with the International Trade Commission (ITC) and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and ZTE (USA) of infringement upon its 3G patent rights. In the ITC case, The U.S. company demanded the issue of a permanent exclusion order and injunction that would prevent our terminal products from entering the United States. In the case filed with the District Court, damages for losses and payments of attorney fees were also demanded of the defendants, in addition to the plea for injunction, although no specific amount of compensation was named. As of the approval date of the financial statements (30 August 2011), the Company has not paid any compensation or incurred any loss because of the litigation.

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XI. 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 2011	31 December 2010
Within one year (including first year)	423,536	449,170
In the first to second years (including second year)	295,485	306,334
In the second to third years (including third year)	232,682	233,020
After the third year	638,884	848,653
	1,590,587	1,837,177

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.

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.

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XI. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Operating segments (continued)

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

	Network (communications systems)	Terminal products	Telecommunications software systems, services and other products	Total
Six months ended 30 June 2011				
Segment revenue				
Telecommunications systems contracts	20,522,957	—	3,979,352	24,502,309
Sales of goods and services	—	11,214,730	1,619,556	12,834,286
Sub-total	20,522,957	11,214,730	5,598,908	37,336,595
Segment results	3,871,167	456,438	955,462	5,283,067
Unallocated gains				629,119
Unallocated expenses				(3,971,808)
Finance costs				(440,485)
Losses from changes in the fair value of assets held for trading				(236,551)
Gains from investment in jointly-controlled entity				—
Gains from investment in associates				9,407
Total profit				1,272,749
Taxation				(436,419)
Net profit				836,330
30 June 2011				
Total assets				
Segment assets	39,657,486	12,174,293	10,819,036	62,650,815
Unallocated assets				33,834,012
Sub-total				96,484,827
Total liabilities				
Segment liabilities	10,536,383	721,182	2,874,452	14,132,017
Unallocated liabilities				57,575,077
Sub-total				71,707,094
Supplemental information				
Six months ended 30 June 2011				
Depreciation and amortisation	355,586	194,309	97,009	646,904
Capital expenditure	1,033,105	564,538	281,844	1,879,487
Asset impairment losses	157,601	86,121	42,995	286,717

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XI. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Operating segments (continued)

	Network (communications systems)	Terminal products	Telecommunications software systems, services and other products	Total
Six months ended 30 June 2010				
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
31 December 2010				
Total assets				
Segment assets	36,764,820	7,898,628	9,058,794	53,722,242
Unallocated assets				30,430,115
Sub-total				84,152,357
Total liabilities				
Segment liabilities	10,274,691	700,294	2,531,665	13,506,650
Unallocated liabilities				45,683,709
Sub-total				59,190,359
Supplemental information				
Six months ended 30 June 2010				
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

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XI. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Group information

Geographic information

External revenue

	Six months ended 30 June 2011	Six months ended 30 June 2010
The PRC	16,526,771	15,469,878
Asia (excluding the PRC)	6,807,562	5,250,734
Africa	5,011,605	4,463,961
Europe, America and Oceania	8,990,657	5,540,847
	37,336,595	30,725,420

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

Total non-current assets

	30 June 2011	31 December 2010
The PRC	8,085,689	7,195,011
Asia (excluding the PRC)	960,662	939,248
Africa	1,382,878	1,565,902
Europe, America and Oceania	483,839	377,909
	10,913,068	10,078,070

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 RMB10,775,111,000 (Six months ended 30 June 2010: RMB12,638,790,000) was derived from revenue from three key customers.

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XI. 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 2011

Financial assets

	Financial assets at fair value through profit or loss	Loans and other receivables	Available-for-sale financial assets	Total
Cash	—	15,748,613	—	15,748,613
Financial assets held for trading	1,009,251	—	—	1,009,251
Available-for-sale financial assets	—	—	644,456	644,456
Bills receivable	—	5,368,265	—	5,368,265
Trade receivables and long-term receivables	—	21,038,227	—	21,038,227
Factored trade receivables and factored long-term receivables	—	7,899,780	—	7,899,780
Other receivables (excluding dividend receivable)	—	2,279,898	—	2,279,898
Other non-current assets	—	1,066,673	—	1,066,673
	1,009,251	53,401,456	644,456	55,055,163

Notes to Financial Statements

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

XI. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Classification of financial instruments (continued)

30 June 2011 (continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total
Derivative financial liabilities	10,924	—	10,924
Bank loans	—	18,048,220	18,048,220
Bills payable	—	10,456,007	10,456,007
Trade payables	—	17,884,230	17,884,230
Bank advances on factored trade receivables and factored long-term receivables	—	8,504,106	8,504,106
Other payables (excluding accruals)	—	3,323,672	3,323,672
Bonds cum Warrants	—	3,803,772	3,803,772
Factoring costs payable in relation to the derecognition of trade receivables	—	342,020	342,020
Long-term financial guarantee contract	—	3,689	3,689
	10,924	62,365,716	62,376,640

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XI. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Classification of financial instruments (continued)

31 December 2010

Financial assets

	Financial assets at fair value through profit or loss	Loans and other receivables	Available-for- sale financial assets	Total
Cash	—	15,383,207	—	15,383,207
Derivative financial assets	123,365	—	—	123,365
Available-for-sale financial assets	—	—	342,706	342,706
Bills receivable	—	1,289,877	—	1,289,877
Trade receivables and long-term receivables	—	18,131,369	—	18,131,369
Factored trade receivables and factored long-term receivables	—	7,989,287	—	7,989,287
Other receivables (excluding dividend receivable)	—	1,387,908	—	1,387,908
Other non-current assets	—	1,090,086	—	1,090,086
	123,365	45,271,734	342,706	45,737,805

Financial liabilities

	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total
Derivative financial liabilities	40,139	—	40,139
Bank loans	—	9,620,540	9,620,540
Bills payable	—	10,056,477	10,056,477
Trade payables	—	15,441,206	15,441,206
Bank advances on factored trade receivables and factored long-term receivables	—	7,989,287	7,989,287
Other payables (excluding accruals)	—	2,421,966	2,421,966
Bonds cum Warrants	—	3,755,790	3,755,790
Factored interest payable	—	392,211	392,211
Long-term financial guarantee contract	—	3,689	3,689
	40,139	49,681,166	49,721,305

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XI. 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 accounted for 38.61% 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.

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XI. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Credit risk (continued)

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 2011

	Total	Not overdue/ not impaired	Less than 1 year	Overdue for		
				1 to 2 years	2 to 3 years	Over 3 years
Trade receivables	20,016,721	4,651,574	14,338,223	972,324	54,600	—
Long-term receivables	1,021,506	1,021,506	—	—	—	—
Other receivables	2,279,898	—	2,067,813	160,487	30,777	20,821

31 December 2010

	Total	Not overdue/ not impaired	Less than 1 year	Overdue for		
				1 to 2 years	2 to 3 years	Over 3 years
Trade receivables	17,563,925	3,839,776	12,799,479	877,934	46,736	—
Long-term receivables	567,444	567,444	—	—	—	—
Other receivables	1,389,783	—	1,195,542	172,501	13,522	8,218

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.

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XI. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Liquidity risk (continued)

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

30 June 2011

Financial assets

	Current	Within 1 year	1-2 years	2-3 years	Over 3 years	Total
Financial assets held for trading	—	1,009,251	—	—	—	1,009,251
Cash	15,214,861	533,752	—	—	—	15,748,613
Available-for-sale financial assets	644,456	—	—	—	—	644,456
Bills receivable	—	5,368,265	—	—	—	5,368,265
Trade receivables and long-term receivables	15,365,147	4,651,574	761,483	127,516	213,446	21,119,166
Factored trade receivables and factored long-term receivables	—	3,746,567	1,716,317	911,416	1,525,480	7,899,780
Other receivables (excluding dividend receivable)	2,279,898	—	—	—	—	2,279,898
Other non-current assets	—	—	136,768	166,471	763,434	1,066,673
	33,504,362	15,309,409	2,614,568	1,205,403	2,502,360	55,136,102

Financial liabilities

	Current	Within 1 year	1-2 years	2-3 years	Over 3 years	Total
Derivative financial liabilities	—	10,924	—	—	—	10,924
Bank loans	—	16,888,693	545,595	—	988,298	18,422,586
Bills payable	—	10,456,007	—	—	—	10,456,007
Trade payables	17,884,230	—	—	—	—	17,884,230
Trade receivables and bank advances on factored long-term receivables	—	4,421,061	1,777,441	965,513	1,707,155	8,871,170
Other payables (excluding prepaid expenses)	3,323,672	—	—	—	—	3,323,672
Bonds cum Warrants	—	32,000	4,032,000	—	—	4,064,000
Factored interest payable in relation to the derecognition of trade receivables	—	89,580	78,095	71,445	279,185	518,305
Long-term financial guarantee contract	69,415	—	—	—	—	69,415
	21,277,317	31,898,265	6,433,131	1,036,958	2,974,638	63,620,309

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

3. Financial instruments and risk analysis (continued)

Liquidity risk (continued)

31 December 2010

Financial assets

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Derivative financial assets	—	123,365	—	—	—	123,365
Cash	14,905,099	478,108	—	—	—	15,383,207
Available for sale Investments	342,706	—	—	—	—	342,706
Bills receivable	—	1,289,877	—	—	—	1,289,877
Trade receivables and long-term receivables	13,724,149	3,839,776	391,292	124,648	97,133	18,176,998
Factored trade receivables and factored long-term receivables	—	3,016,569	1,868,598	1,228,695	1,875,425	7,989,287
Other receivables (excluding dividend receivable)	1,387,908	—	—	—	—	1,387,908
Other non-current assets	—	—	183,694	159,561	746,831	1,090,086
	30,359,862	8,747,695	2,443,584	1,512,904	2,719,389	45,783,434

Financial liabilities

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	—	8,076,234	1,154,451	176,695	466,878	9,874,258
Derivative financial liabilities	—	40,139	—	—	—	40,139
Bills payable	—	10,056,477	—	—	—	10,056,477
Trade payables	15,441,206	—	—	—	—	15,441,206
Trade receivables and bank advances on factored long-term receivables	—	3,048,068	1,921,016	1,285,960	2,079,086	8,334,130
Other payables (excluding prepaid expenses)	2,309,797	112,169	—	—	—	2,421,966
Bonds cum Warrants	—	32,000	32,000	4,032,000	—	4,096,000
Factoring interest payable	—	—	88,947	75,604	334,944	499,495
Long-term financial guarantee contract	69,868	—	—	—	—	69,868
	17,820,871	21,365,087	3,196,414	5,570,259	2,880,908	50,833,539

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 maximize 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 2011.

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XI. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Capital management (continued)

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 2011 RMB'000	31 December 2010 RMB'000
Interest-bearing bank borrowings	18,048,220	9,620,540
Total equity	24,777,733	24,961,998
Total equity and interest-bearing bank borrowings	42,825,953	34,582,538
Gearing ratio	42%	28%

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 2011, the bank loans of the Group and the Company including fixed rate debts and floating debts based on LIBOR. The Group and the Company had no significant concentration of interest rate risk.

The Group's interest risk policy requires it to manage interest risk by maintaining an appropriate mix of fixed and variable rate instruments. The Group's policy requires it to maintain the fixed interest rate between 2% and 11.50%. On 30 June 2011, approximately 39.8% (31 December 2010: 39%) of the Group's 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%, with other variables held constant the Group's total profit for six months ended 30 June and owner's equity as at 30 June 2011 will accordingly decrease or increase by RMB26,809,000, respectively.

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 denominated 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.

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XI. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Foreign currency risk (continued)

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 2011		
Weaker RMB against USD	+3%	149,711
Stronger RMB against USD	-3%	(149,711)
Six months ended 30 June 2010		
Weaker RMB against USD	+3%	141,831
Stronger RMB against USD	-3%	(141,831)

	Increase/decrease in EUR dollars exchange rate	Effect on total profit
Six months ended 30 June 2011		
Weaker RMB against EUR	+5%	151,236
Stronger RMB against EUR	-5%	(151,236)
Six months ended 30 June 2010		
Weaker RMB against EUR	+5%	121,224
Stronger RMB against EUR	-5%	(121,224)

Fair value

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

Fair value refers to the amount at which assets are exchanged and debts settled between two informed and willing parties in an arm's length transaction. Methods and assumptions adopted in the estimation of fair values are explained as follows:

The fair values of cash, bills receivable, trade receivables, bills payable and trade payables approximate their carrying values given relatively short outstanding periods.

The fair values of long-term receivables, long/short-term loans, bonds payable are determined on the basis of discounted future cash flow. The discount rate adopted is the rate of market yield for other financial instruments with substantially identical contract terms and characteristics.

The fair values of listed financial instruments are determined on the basis of market value.

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XI. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Fair value (continued)

The Group has entered into derivative financial instruments with a number of counterparties (who are mainly financial institutions with sound credit rating). Derivative financial instruments include mainly forward exchange contracts, which are measured using valuation techniques similar to those adopted for forward pricing. The valuation model covers a number of inputs observable in the market, such as the credit quality of the counterparty, spot and forward exchange rates and interest rate curves. The carrying value of a forward exchange contract is identical with its fair value. As at 30 June 2011, the mark-to-market value of derivative financial assets represents the net value after offsetting credit valuation adjustments attributable to the risk of counterparty default.

The Group's measurement of fair value is distinguished into three levels:

The first level is the measurement of fair value as prices of identical assets or liabilities quoted in an active market on the date of measurement, where such prices are available; the second level is the measurement of fair value as prices of similar assets or liabilities quoted in an active market or prices of identical or similar assets or liabilities quoted in an inactive market on the date of measurement, after necessary adjustment, where such prices are available; the third level is the measurement of fair value on the basis of other parameters that reflect market participants' valuation of the assets or liabilities concerned, if no comparable traded market prices for identical or similar assets are available.

Financial instruments measured at fair value:

Six months ended 30 June 2011

	Level 1	Level 2	Level 3	Total
Financial assets held for trading	1,009,251	—	—	1,009,251
Derivative financial liabilities	(10,924)	—	—	(10,924)

XII. COMPARATIVE DATA

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

Notes to Financial Statements

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XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Trade receivables

	30 June 2011			31 December 2010		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
RMB	7,661,602	1.0000	7,661,602	6,751,582	1.0000	6,751,582
USD	2,574,736	6.4716	16,662,661	1,993,012	6.6227	13,199,121
EUR	409,665	9.3612	3,834,956	375,275	8.8065	3,304,859
Others			182,344			1,028,025
			28,341,563			24,283,587

Aging analysis of trade receivables:

	30 June 2011	31 December 2010
Within 1 year	21,443,725	18,947,934
1 to 2 years	3,835,163	2,762,847
2 to 3 years	2,045,278	2,363,208
Over 3 years	2,914,459	1,862,034
	30,238,625	25,936,023
Less: Bad debt provision for trade receivables	1,897,062	1,652,436
	28,341,563	24,283,587

	30 June 2011				30 June 2011			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Percentage (%)	Amount	Charge ratio (%)	Amount	Percentage (%)	Amount	Charge ratio (%)
Individually significant and for which bad debt provision has been separately made	523,130	2	523,130	100	482,379	2	482,379	100
For which bad debt provision has been collectively made								
0-6 months	16,902,210	55	—	—	15,083,368	58	—	—
7-12 months	4,541,515	15	136,408	3	3,864,566	15	132,274	3
13-18 months	2,147,296	7	224,026	10	1,802,688	7	277,533	15
19-24 months	1,687,867	6	298,943	18	960,159	4	156,436	16
2-3 years	2,045,278	7	476,012	23	2,363,208	9	553,963	23
Over 3 years	2,391,329	8	238,543	10	1,379,655	5	49,851	4
	29,715,495	98	1,373,932	5	25,453,644	98	1,170,057	5
	30,238,625	100	1,897,062	6	25,936,023	100	1,652,436	6

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XIII. 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		Closing balance
			Write-back	Write-off	
	1,652,436	245,571	—	(945)	1,897,062
				30 June 2011	31 December 2010
Total trade receivables from top five accounts				13,480,901	11,738,548
As a percentage of total trade receivables				44.58%	45.26%

As at 30 June 2011, there was no outstanding amount due from shareholders holding 5% or more in the voting shares (31 December 2010: Nil).

Transfer of trade receivables not qualified for derecognition is separately reflected in “factored trade receivables” and “Bank advances on factored trade receivables”. The amounts were RMB3,607,729,000 and RMB4,212,055,000 respectively (31 December 2010: RMB2,864,307,000 and RMB2,864,307,000 respectively).

2. Other receivables

The aging analysis of other receivables is as follows:

	30 June 2011	31 December 2010
Within 1 year	1,871,462	5,152,767
1 to 2 years	1,282,847	166,324
2 to 3 years	753,663	264,816
Over 3 years	9,421	94,343
	3,917,393	5,678,250
Less: Bad debt provision for other receivables	—	—
	3,917,393	5,678,250
Total other receivables from top five accounts	2,710,630	4,124,601
As a percentage of total amounts of other receivables	69.19%	72.64%

As at 30 June 2011, there was no outstanding amount due from shareholders holding 5% or more in the voting shares (31 December 2010: Nil).

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

3. Available-for-sale financial assets

	30 June 2011	31 December 2010
Available-for-sale equity instruments	212,448	244,448

4. Long-term receivables

	30 June 2011	31 December 2010
Loans granted to subsidiaries (Note 1)	797,018	764,790
Instalment payments for the provision of telecommunication system construction projects	1,061,768	555,050
Less: Bad debt provision for long-term receivables	54,190	57,529
	1,804,596	1,262,311

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:

	Opening balance	Provision for the period	Decrease during the period		Closing balance
			Write-back	Write-off	
	57,529	—	(3,339)	—	54,190

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 RMB4,278,213,000 (31 December 2010: RMB5,097,718,000).

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 (English translation for reference only)

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

5. Long-term equity investments

		30 June 2011	31 December 2010
Equity method			
Associates	(1)	272,847	809,174
Joint ventures	(2)	48,465	—
Cost method			
Subsidiaries	(3)	2,953,613	2,807,398
Less: Provision for impairment in long-term equity investments	(4)	100,748	100,748
		3,174,177	3,515,824

(1) Associates

	Investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the period
Nationz Technologies Inc.	31,559	540,495	(540,495)	—	13.50%	13.50%	10,880
KAZNURTEL Limited Liability Company	3,988	2,477	—	2,477	49.00%	49.00%	—
思卓中興(杭州)科技有限公司	22,845	2,314	19,285	21,599	49.00%	49.00%	—
上海中興群力信息科技有限公司	2,000	1,967	(14)	1,953	40.00%	40.00%	—
Zhongxing Energy Company Limited	300,000	261,921	(15,103)	246,818	23.26%	23.26%	—
Zhongxing Software Technology (Nanchang) Company Limited	4,500	—	—	—	30.00%	30.00%	—
		809,174	536,327	272,847	—	—	10,880

(2) Joint Ventures

	Investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the period
普興移動通訊設備有限公司	43,500	—	48,465	48,465	50.00%	50.00%	—
		—	48,465	48,465			—

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

5. Long-term equity investments (continued)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the period
Shenzhen Zhongxing Software Company Limited	156,500	36,500	120,000	156,500	74%	74%	—
Shenzhen Changfei Investment Company Limited	15,300	15,300	—	15,300	51%	51%	—
Nanjing ZTEsoft Technology Company Limited	45,489	45,489	—	45,489	75%	75%	—
Shenzhen Zhongxing Netview Technology Company Limited	6,000	6,000	—	6,000	80%	80%	7,500
Shenzhen Special Equipment Company Limited	540	540	—	540	54%	54%	4,644
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited	5,100	5,100	—	5,100	51%	51%	3,825
Shenzhen ZTE Kangxun Telecom Company Limited	45,000	45,000	—	45,000	90%	90%	1,710,000
ZTE Microelectronics Technology Company Limited	15,674	15,674	—	15,674	90%	90%	—
Anhui Wantong Postal and Telecom Company Limited	11,329	11,329	—	11,329	51%	51%	—
Wuxi Zhongxing Optoelectronics Technology Company Limited	6,500	6,500	—	6,500	65%	65%	—
ZTE Integration Telecom Limited	41,250	41,250	—	41,250	80%	80%	—
Shenzhen Zhongxing Mobile Technology Company Limited	31,666	31,666	—	31,666	80%	80%	—
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	—	45,000	99%	99%	—
Xi'an Zhongxing Jing Cheng Communication Company Limited	10,500	10,500	—	10,500	70%	70%	3,003
Guangdong New Pivot Technology & Service Company Limited	4,500	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	2,100	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%	8,000
中興通訊(杭州)有限責任公司	100,000	100,000	—	100,000	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%	—
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	29,700	29,700	—	29,700	99%	99%	—

Notes to Financial Statements

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

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

5. Long-term equity investments (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the period
PT. ZTE Indonesia	15,276	15,276	—	15,276	100%	100%	—
Congo-Chine Telecom S.A.R.L	72,835	72,835	—	72,835	51%	51%	—
Telrise (Cayman) Telecom Limited	21,165	21,165	—	21,165	100%	100%	—
Wistron Telecom AB	2,137	2,137	—	2,137	100%	100%	—
ZTE (Malaysia) Corporation SDN. BHD.	496	496	—	496	100%	100%	—
ZTE Holdings (Thailand) Co., Ltd.	10	10	—	10	100%	100%	—
ZTE (Thailand) Co., Ltd.	5,253	5,253	—	5,253	100%	100%	—
ZTE (UK) Ltd.	—	5,285	(5,285)	—	—	—	—
ZTE (USA) Inc.	5,395	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.	18,573	18,573	—	18,573	100%	100%	—
ZTE Romania S.R.L	827	827	—	827	100%	100%	—
ZTE Telecom India Private Ltd	258,361	258,361	—	258,361	100%	100%	—
ZTE-Communication Technologie	6,582	6,582	—	6,582	100%	100%	—
Zhongxing Telecom Pakistan (Private) Ltd	5,279	5,279	—	5,279	93%	93%	—
Closed Joint Stock Company TK Mobile	16,871	16,871	—	16,871	51%	51%	—
ZTE (H.K.) Limited	449,364	449,364	—	449,364	100%	100%	—
Shenzhen ZTE Capital Management Company Limited	6,600	6,600	—	6,600	55%	55%	—
ZTE (Heyuan) Company Limited	500,000	500,000	—	500,000	100%	100%	—
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise	300,000	300,000	—	300,000	31%	N/A	—
深圳市百維技術有限公司	3,000	—	3,000	3,000	100%	100%	—
深圳市中興供應鏈有限公司	28,500	—	28,500	28,500	95%	95%	—
		2,807,398	146,215	2,953,613			1,736,972

Notes to Financial Statements

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

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

5. Long-term equity investments (continued)

(4) 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

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

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

6. Operating revenue and costs

Operating revenue is analysed as follows:

	Six months ended 30 June 2011	Six months ended 30 June 2010
Revenue	30,862,524	27,216,781
Other income	104,078	24,631
	30,966,602	27,241,412

Operating cost is analysed as follows:

	Six months ended 30 June 2011	Six months ended 30 June 2010
Costs of sales	27,599,965	22,885,313
Other operating expenses	6,860	1,741
	27,606,825	22,887,054

Sales to the previous top five customers of the Group generated revenue of RMB12,456,662,000 in the six months ended 30 June 2011 (Six months ended 30 June 2010: RMB13,793,154,000), accounting for 40.36% of the Company's revenue (Six months ended 30 June 2010: 50.68%).

7. Investment income

	Six months ended 30 June 2011	Six months ended 30 June 2010
Investment income from long-term equity investment under equity method	(1,942)	12,898
Investment income from long-term equity investment under cost method	1,737,672	581,664
Investment income from the disposal of derivative financial assets	(10,013)	—
Investment income from the disposal of long-term equity investment	1,089,148	—
	2,814,865	594,562

As at 30 June 2011, the Company was not subject to significant restrictions in remitting its investment income.

XIV. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by way of a resolution of the Board of Directors of the Company on 30 August 2011.

Supplemental Information on the Financial Statements

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

1. BREAKDOWN OF EXTRAORDINARY GAINS/LOSSES

	Six months ended 30 June 2011
Loss from the disposal of non-current assets	(5,087)
Investment gains from disposal of long-term equity investment	1,088,293
Profit and loss of changes in fair value arising from financial assets held for trading and financial liabilities held for trading except for valid straddle business relevant to normal business of the company, as well as investment gain realized from disposal of financial assets held for trading, financial liabilities held for trading and financial assets available for sale	(170,022)
Net amount of other non-operating income and expenses	82,354
Effect of income tax	149,331
	846,207

Note: The Group recognizes extraordinary items in accordance with "Explanatory Announcement for Information Disclosure by Issuers of Public Securities No. 1 – Extraordinary Items" (CSRC Announcement [2008] No. 43). The extraordinary gain/(loss) items within the definition of extraordinary gain/(loss), and the extraordinary gain/(loss) items defined as ordinary gain/(loss) items:

	Six months ended 30 June 2011	Reason
Refund of VAT on software products	363,034	In line with national policies and received on an ongoing basis

2. RECONCILIATION OF DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG FINANCIAL REPORTING STANDARDS

There were no significant differences between financial statements prepared under PRC ASBEs and under HKFRSs in the reporting period.

Supplemental Information on the Financial Statements

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

3. RETURN ON NET ASSETS AND EARNINGS PER SHARE

30 June 2011

	Weighted average return on net assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	3.29%	0.27	0.27
Net profit attributable to ordinary shareholders of the Company after extraordinary items	(0.33%)	(0.03)	(0.03)

30 June 2010

	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

Supplemental Information on the Financial Statements

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

4. ANALYSIS OF MOVEMENTS IN CERTAIN FINANCIAL STATEMENT ITEMS

Balance sheet items	Analysis of reasons
Financial assets held for trading	Mainly attributable to the transfer to financial assets held for trading from long-term equity investment on Nationz Technologies
Bills receivable	Mainly attributable to more frequent receipts of payments in the form of acceptances
Prepayments	Mainly attributable to the increase in prepayments for the purchase of equipment and raw materials made to suppliers
Other receivables	Mainly attributable to the increase in sub-contract loans
Available-for-sale financial assets	Mainly attributable to the increase in investments in available-for-sale financial assets
Long-term trade receivables	Mainly attributable to the offering of more favourable payment terms to customers
Long-term equity investments	Mainly attributable to the transfer to financial assets held for trading from long-term equity investment on Nationz Technologies
Other non-current assets	Mainly attributable to the increase in capitalisation of one-off market deferred development costs
Short-term loans	Mainly attributable to the increase in borrowings for meeting short-term fund requirements
Derivative financial liability	Mainly attributable to settlement of certain derivative investments upon maturity
Bank advances on factored trade receivables	Mainly attributable to the increase in factored trade receivables as a result of sales growth
Salary and welfare payable	Mainly reflecting actual payments of staff wages
Tax payable	Mainly attributable to the increase in deductible input VAT
Dividend payable	Mainly reflecting the dividend declared for the period but not yet paid
Other payables	Mainly attributable to the increase of factored trade receivables
Non-current liabilities due within one year	Mainly attributable to the maturity of certain non-current liabilities due within one year during the period
Proposed final dividend	Mainly attributable to dividend distribution declared for the period

Supplemental Information on the Financial Statements

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

4. 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 gains during the period as compared to exchange loss during period last year arising from exchange rate volatility
Asset impairment losses	Mainly attributable to the increase in provision for inventories during the period as compared to the write back of provision during the same period last year
Gains/losses from change in fair values	Mainly attributable to the loss on changes in fair value on financial asset held for trading transferred from long-term investment on Nationz Technologies and part of gains on changes in fair value transferred to investment income upon maturity and settlement of the derivative investment
Investment income	Mainly attributable to the gains on equity disposal of Nationz Technologies, and to the transfer to investment income of gains on changes in fair value of certain derivative investments upon maturity and settlement during the period
Non-operating expenses	Mainly attributable to the increase in compensation payments
Minority interests	Mainly attributable to the decrease in profit for subsidiaries with a higher percentage of minority interests
Other comprehensive income	Mainly attributable to the decrease in losses arising from the translation of foreign currency statements
Comprehensive income attributable to minority interests	Mainly attributable to the decrease in profit for subsidiaries with a higher percentage 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 acceptance of services
Net cash flow from financing activities	Mainly attributable to the increase in borrowings to meeting funding requirements
Effect of exchange rate changes on cash	Mainly attributable to the increase in exchange losses as a result of exchange rate fluctuations

Consolidated Statement of Comprehensive Income

(Prepared under HKFRSs)
Six months ended 30 June 2011

	Note	Six months ended 30 June 2011 (unaudited) RMB'000	Six months ended 30 June 2010 (unaudited) RMB'000
Revenue	4	37,336,595	30,725,420
Cost of sales		(27,224,250)	(20,874,496)
Gross profit		10,112,345	9,850,924
Other income and gains	4	2,116,556	860,769
Research and development costs		(3,664,474)	(3,195,277)
Selling and distribution costs		(4,983,647)	(4,065,957)
Administrative expenses		(1,260,362)	(1,142,620)
Other expenses		(547,406)	(543,251)
Finance costs	6	(509,670)	(393,926)
Share of profits and losses of: Associates		9,407	22,197
Profit before tax	5	1,272,749	1,392,859
Income tax expense	7	(436,419)	(399,571)
Profit for the period		836,330	993,288
Attributable to:			
Equity owners of the parent		769,271	877,489
Minority interests		67,059	115,799
		836,330	993,288
Earnings per share attributable to ordinary shareholders of the parent	9		
Basic		RMB0.27	RMB0.32
Diluted		RMB0.27	RMB0.31
Other comprehensive income		(2,303)	(135,085)
Comprehensive income		834,027	858,203
Attributable to:			
Equity owners of the parent		764,607	742,499
Minority interests		69,420	115,704
		834,027	858,203

Consolidated Statement of Financial Position

(Prepared under HKFRSs)
30 June 2011

	Note	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Non-current assets			
Property, plant and equipment		8,270,119	7,720,276
Prepaid land lease payments		752,919	758,805
Intangible assets		1,873,554	1,582,564
Investments in a jointly-controlled entity		50,720	2,255
Investments in associates		395,390	915,734
Available-for-sale financial assets		644,456	342,706
Long-term trade receivables	11	1,021,506	567,444
Factored long-term trade receivables		4,153,213	4,972,718
Deferred tax assets		665,617	655,245
Pledged deposits		1,066,673	1,090,086
Other non-current assets		438,494	—
Total non-current assets		19,332,661	18,607,833
Current assets			
Prepaid land lease payments		16,476	16,425
Inventories		15,146,229	12,103,670
Amount due from customers for contract works	10	13,198,314	14,208,039
Trade and bills receivables	11	25,384,986	18,853,802
Factored trade receivables		3,746,567	3,016,569
Prepayments, deposits and other receivables		4,532,333	3,196,314
Financial assets held for trading		1,009,251	123,365
Pledged deposits		783,533	407,009
Fixed deposits		97,550	71,099
Cash and cash equivalents		14,867,530	14,905,099
Total current assets		78,782,769	66,901,391
Current liabilities			
Trade and bills payables	12	28,340,237	25,497,683
Amount due to customers for contract works	10	3,226,918	2,772,669
Other payables and accruals		9,128,974	9,320,689
Interest-bearing bank borrowings		16,654,044	7,901,230
Bank advances on factored trade receivables		4,350,893	3,016,569
Tax payable		659,357	885,728
Derivative financial instruments		10,924	40,139
Dividends payable		1,155,713	136,302
Total current liabilities		63,527,060	49,571,009
Net current assets		15,255,709	17,330,382
Total assets less current liabilities		34,588,370	35,938,215

Consolidated Statement of Financial Position (continued)

(Prepared under HKFRSs)
30 June 2011

Note	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Total assets less current liabilities	34,588,370	35,938,215
Non-current liabilities		
Interest-bearing bank borrowings	1,394,176	1,719,310
Bank advances on factored long-term trade receivables	4,153,213	4,972,718
Bonds cum warrants	3,803,772	3,755,790
Deferred tax liabilities	70,920	89,167
Financial guarantee contract	3,689	3,689
Provision for retirement benefits	42,847	43,332
Other long-term payables	342,020	392,211
Total non-current liabilities	9,810,637	10,976,217
Net assets	24,777,733	24,961,998
Equity		
Equity attributable to shareholders of the parent		
Issued capital	2,866,732	2,866,732
Restricted shares remaining in lock-up	(276,266)	(276,266)
Reserves	20,461,386	19,662,109
Proposed final dividends	—	841,297
	23,051,852	23,093,872
Minority interests	1,725,881	1,868,126
Total equity	24,777,733	24,961,998

Huo Weigui
Director

Shi Lirong
Director

Consolidated Statement of Changes in Equity

(Prepared under HKFRSs)
Six months ended 30 June 2011

	Attributable to shareholders of the parent company										
	Issued capital (Unaudited) RMB'000	Capital reserve (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
As at 1 January 2011	2,866,732	8,608,755	462,220	(276,266)	1,537,512	(168,765)	9,222,387	841,297	23,093,872	1,868,126	24,961,998
Total comprehensive income for the period	—	—	—	—	—	(4,664)	769,271	—	764,607	69,420	834,027
Acquisition of minority interests	—	—	—	—	—	—	—	—	—	316	316
Dividends declared to minority shareholders	—	—	—	—	—	—	—	—	—	(218,677)	(218,677)
Capital contributions by minority shareholders	—	—	—	—	—	—	—	—	—	6,696	6,696
Final 2010 dividend declared	—	—	—	—	—	—	—	(841,297)	(841,297)	—	(841,297)
Share incentive scheme – Equity settled share expenses	—	—	34,670	—	—	—	—	—	34,670	—	34,670
As at 30 June 2011	2,866,732	8,608,755	496,890	(276,266)	1,537,512	(173,429)	9,991,658	—	23,051,852	1,725,881	24,777,733

Consolidated Statement of Changes in Equity (continued)

(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
As 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
Acquisition of minority interests	—	—	—	—	—	—	—	—	—	—	(2,200)	(2,200)
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
Dividends declared to minority shareholders	—	—	—	—	—	—	—	—	—	—	(156,736)	(156,736)
Final 2009 dividend declared	—	—	—	—	—	—	—	(7,936)	(552,425)	(560,361)	—	(560,361)
Share incentive scheme	—	—	—	—	—	—	—	—	—	—	—	—
– Equity settledshare 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)	—	—	—	—	—	—	—	—	—	—
As 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 Cash Flow Statement

(Prepared under HKFRSs)
Six months ended 30 June 2011

Items	Six months ended 30 June 2011 (Unaudited) RMB'000	Six months ended 30 June 2010 (Unaudited) RMB'000
Net cash outflow from operating activities	(6,220,529)	(4,910,441)
Net cash outflow from investing activities	(2,183,152)	(1,117,452)
Net cash inflow from financing activities	8,434,376	4,253,595
Net increase in cash and cash equivalents	30,695	(1,774,298)
Cash and cash equivalents at beginning of year	14,905,099	14,075,822
Effect of exchange rate changes, net	(68,264)	(15,988)
Cash and cash equivalents at end of period	14,867,530	12,285,536
Analysis of balance of cash and cash equivalents		
Cash and bank balances	14,431,328	12,274,536
Unsecured time deposits with a maturity of less than three months	436,202	11,000
	14,867,530	12,285,536

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2011

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, mobile end products 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. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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 (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investments and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

The impacts of new and revised HKFRSs and HKASs

HKAS 24 (Revised)

Related Party Disclosures

HK(IFRIC) – Int 19

Extinguishing Financial Liabilities with Equity Instruments

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a limited exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

HK(IFRIC) – Int 19 *Extinguishing Financial Liabilities with Equity Instruments* addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with HKAS 39 Financial Instruments: Recognition and Measurement and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. While the adoption of the revised standard will result in changes in the accounting policy, the revised standard does not have any impact on financial position of the Group.

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2011

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Improvements to HKFRSs

In May 2010, HKICPA issued *Improvements to HKFRSs 2010* which set out amendments to a number of HKFRSs. These amendments were adopted by the Group since 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- (a) *HKFRS 3 Business Combinations*: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- (b) *HKAS 1 Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.
- (c) *HKAS 27 Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

The following amendments to standards do not have any impacts on the accounting policies, financial position or result of the Group:

HKFRS 1 (Revised)	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i>
HK(IFRIC) – Int 14 (Revised)	Amendments to HK(IFRIC) – Int 14 <i>Prepayments of a Minimum Funding Requirement</i>
HKAS 32 (Revised)	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i>

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3. OPERATING 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.

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.

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3. OPERATING SEGMENT INFORMATION (CONTINUED)

An analysis of the Group's revenue and profit by operating segment 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 2011				
Segment revenue:				
Telecommunications system contracts	20,522,957	—	3,979,352	24,502,309
Sale of goods and services	—	11,214,730	1,619,556	12,834,286
Total	20,522,957	11,214,730	5,598,908	37,336,595
Segment results	3,871,167	456,438	955,462	5,283,067
Interest income				51,913
Dividend income and unallocated gains				2,064,643
Unallocated expenses				(5,626,611)
Finance costs				(509,670)
Share of profits and losses of:				
Jointly-controlled entity				—
Associates				9,407
Profit before tax				1,272,749
As at 30 June 2011				
Segment assets	39,657,486	12,174,293	10,819,036	62,650,815
Investment in a jointly-controlled entity				50,720
Interest in associates				395,390
Unallocated assets				35,018,505
Total assets				98,115,430
Segment liabilities	10,536,383	721,182	2,874,452	14,132,017
Unallocated liabilities				59,205,680
Total liabilities				73,337,697
Six months ended 30 June 2011				
Other segment information:				
Impairment losses recognised in the income statement	157,601	86,121	42,995	286,717
Depreciation and amortisation	355,586	194,309	97,009	646,904
Capital expenditure	1,033,105	564,538	281,844	1,879,487

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3. OPERATING 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 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
	<u>19,000,326</u>	<u>7,790,253</u>	<u>3,934,841</u>	<u>30,725,420</u>
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				<u>1,392,859</u>
31 December 2010				
Segment assets				
	36,764,820	7,898,628	9,058,794	53,722,242
Interest in associates				915,734
Investment in a jointly-controlled entity				2,255
Other unallocated assets				30,868,993
Total assets				<u>85,509,224</u>
Segment liabilities				
	10,274,691	700,294	2,531,665	13,506,650
Unallocated liabilities				47,040,576
Total liabilities				<u>60,547,226</u>
Six months ended 30 June 2010				
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

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 2011 and 2010 is set out in the following table:

	Six months ended 30 June 2011 RMB'000	Six months ended 30 June 2010 RMB'000
The PRC	16,526,771	15,469,878
Asia (excluding the PRC)	6,807,562	5,250,734
Africa	5,011,605	4,463,961
Europe, Americas and Oceania	8,990,657	5,540,847
	<u>37,336,595</u>	<u>30,725,420</u>

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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 revenue, other income and gains is as follows:

	Six months ended 30 June 2011 RMB'000	Six months ended 30 June 2010 RMB'000
Revenue		
Telecommunications system contracts	24,502,309	21,558,392
Sale of goods and services	12,834,286	9,167,028
	37,336,595	30,725,420
	Six months ended 30 June 2011 RMB'000	Six months ended 30 June 2010 RMB'000
Other income		
VAT allowance, exemption and rebates [#]	363,034	553,281
Bank interest income	51,913	42,800
Others ^{##}	266,085	184,981
	681,032	781,062
Gains		
Gains from derivative financial instruments	66,528	77,926
Exchange gains	279,642	—
Gains from equity investment ^{###}	1,088,293	—
Dividends received	1,061	1,781
	1,435,524	79,707
	2,116,556	860,769

[#] 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 which falls within the criteria for specific software enterprise, 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 and confirmation of the state taxation authorities. The policy expired during the reporting period. Revenue of the Group recognised during the reporting period related to the refund upon payment of VAT attributable to the previous year but for which approval was received during the period.

^{##} Others represent gains from contract penalties and other gains.

^{###} Since the Company no longer has significant influence over the operation of Nationz Technologies Inc., the Company transferred its equity from long-term equity investment to financial assets held for trading accordingly. The Company recognize investment gains based on fair value and recognized investment gains from disposal of shares of Nationz Technologies Inc.

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5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June 2011 RMB'000	Six months ended 30 June 2010 RMB'000
Cost of inventories sold	22,937,870	17,998,127
Depreciation	501,520	419,211
Amortisation of intangible assets	25,370	13,349
Amortisation of development expenses	120,014	73,095
Provision for bad and doubtful debts*	270,740	254,587
Provision for warranties**	126,966	30,384
Write-down of inventories to net realisable value**	15,977	(102,498)
Exchange difference, net*	—	271,470
Loss on disposal of fixed assets*	5,087	10,222
Equity-settled share expense	34,670	79,478

* Provision for bad and doubtful debts, loss on disposal of fixed assets are included in "Other expenses" in the consolidated statement of comprehensive income.

** Provision for warranties, Write-down of inventories to net realisable value are included in "Cost of sales" in the consolidated statement of comprehensive income.

6. FINANCE COSTS

	Six months ended 30 June 2011 RMB'000	Six months ended 30 June 2010 RMB'000
Interest on bank loans due within five years	195,041	125,122
Interest on Bonds cum Warrants	79,982	77,342
Interest expense on financial liabilities not at fair value through profit or loss	275,023	202,464
Other finance costs:		
Finance costs on trade receivables and bills discounted	234,647	191,462
	509,670	393,926

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7. TAXATION

	Six months ended 30 June 2011 RMB'000	Six months ended 30 June 2010 RMB'000
Group:		
Current — Mainland China	399,629	387,428
Current — Overseas	65,879	58,084
Deferred	(29,089)	(45,941)
Total tax charge for the period	436,419	399,571

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 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 effective from 1 January 2008, the tax rate applicable to domestic-invested enterprises and foreign-invested enterprises in China has been standardised at 25%.

As a national-grade hi-tech enterprise, Company enjoys an enterprise income tax rate of 15%. National-grade hi-tech enterprise of 2011 was under progress of evaluation.

Major subsidiaries operating in Mainland China that were entitled to preferential tax rates are as follows:

Shenzhen Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% as a national-grade hi-tech enterprise and an Important Software Enterprise under the National Planning Layout.

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. National-grade hi-tech enterprise of 2011 was under progress of evaluation.

ZTE Microelectronics Technology Company Limited is subject to an enterprise income tax rate of 15% effective from 2008 to 2010 as a national-grade hi-tech enterprise. National-grade hi-tech enterprise of 2011 was under progress of evaluation.

Wuxi Zhongxing Optoelectronics Technologies Company Limited is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise registered in Wuxi National Hi-tech Industrial Development Zone. National-grade hi-tech enterprise of 2011 was under progress of evaluation.

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. It was entitled to enterprise income tax exemption in the first and second years beginning from the first profitable year and was entitled to normal enterprise income tax from the third year pursuant to Document Shen Guo Shui Nan Jian Mian Bei An (2009) No. 132. It is subject to an enterprise income tax rate of 15% as the current year is its third profitable year. National-grade hi-tech enterprise of 2011 was under progress of evaluation.

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7. TAXATION (CONTINUED)

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. National-grade hi-tech enterprise of 2011 was under progress of evaluation.

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. National-grade hi-tech enterprise of 2011 was under progress of evaluation.

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 fifth profitable year and a 50% reduction in the enterprise income tax rate of 22% is applicable. The said company is also a national-grade hi-tech enterprise for the years from 2008 to 2010. National-grade hi-tech enterprise of 2011 was under progress of evaluation.

Nanjing Zhongxing Software Company Limited is a national-grade hi-tech enterprise from 2008 to 2010. National-grade hi-tech enterprise of 2011 was under progress of evaluation.

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 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. National-grade hi-tech enterprise of 2011 was under progress of evaluation.

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. National-grade hi-tech enterprise of 2011 was under progress of evaluation.

Xi'an Zhongxingxin Software Company Limited, as a software enterprise newly developed 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. It is subject to reduction in the enterprise income tax rate of 25% applicable as the current year is its third profitable year.

Nanjing Zhongxing New Software Company Limited, as a software enterprise newly developed 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 second profitable year.

Shenzhen Zhongxing ICT Company Limited, as a software enterprise newly developed 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. It is subject to a 50% reduction in the enterprise income tax rate of 25% applicable as the current year is its third profitable year.

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8. DIVIDEND

The Directors do not recommend any payment of interim dividend for the six months ended 30 June 2011 (Same period in 2010: nil).

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

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

The calculation of diluted earnings per share amounts is based on the profit for the year 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 year, 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.

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

	Six months ended 30 June 2011	Six months ended 30 June 2010
Earnings		
Net profit attributable to ordinary equity holders of the parent company for the period	769,271	877,489
Shares		
Weighted average number of ordinary shares of the Company in issue	2,804,325	2,736,790
Diluting effect – weighted average number of ordinary shares		
Restricted Shares under share incentive scheme	61,864	64,928
Adjusted weighted average number of ordinary shares in issue	2,866,189	2,801,718

10. TELECOMMUNICATIONS SYSTEM CONTRACTS

	30 June 2011 RMB'000	31 December 2010 RMB'000
Amount due from customers for contract works	13,198,314	14,208,039
Amount due to customers for contract works	(3,226,918)	(2,772,669)
	9,971,396	11,435,370
Contract costs incurred plus recognized gross profits/(loss)	39,788,788	46,544,057
Less: Progress billings	29,817,392	35,108,687
	9,971,396	11,435,370

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11. TRADE AND BILLS RECEIVABLES

Progress payment for telecommunications system contracts is normally made in accordance with the agreed payment schedule. The Group's trading terms with its major customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit terms are normally 90 days, and can be extended to at most 1 year depending on the customers' credit rating. The credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

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

	30 June 2011 RMB'000	31 December 2010 RMB'000
Within 6 months	22,212,506	15,933,535
7 to 12 months	3,167,062	2,563,041
1 to 2 years	972,324	877,934
2 to 3 years	54,600	46,736
Over 3 years	—	—
	26,406,492	19,421,246
Less: Current portion of trade and bills receivables	(25,384,986)	(18,853,802)
Long-term portion	1,021,506	567,444

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

	30 June 2011 RMB'000	31 December 2010 RMB'000
Ultimate controlling company	—	—
Jointly-controlled entities	206,587	—
Associates	41	3,977
Other Related companies	—	7,685
	206,628	11,662

The balances are unsecured, interest-free, repayable on demand 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 2011 RMB'000	31 December 2010 RMB'000
Within 6 months	28,021,086	25,302,896
7 to 12 months	148,811	34,558
1 to 2 years	98,162	104,584
2 to 3 years	22,581	22,766
Over 3 years	49,597	32,879
Total	28,340,237	25,497,683

The balances due to ultimate controlling company, related companies and associates included in the above are as follow:

	30 June 2011 RMB'000	31 December 2010 RMB'000
Ultimate controlling company	87,854	152,772
Associates	65,430	69,613
Other related companies	25,256	122,967
Total	178,540	345,352

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 2011 RMB'000	31 December 2010 RMB'000
Guarantees given to banks in connection with borrowing to customers	65,726	66,179
Guarantees given to banks in respect of performance bonds	12,466,888	7,323,976
	12,532,614	7,390,155

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13. CONTINGENT LIABILITIES (CONTINUED)

- (b) In August 2006, a customer instituted arbitration against the Company to demand indemnity from the Company in the amount of PKR762,984,000 (approximately RMB57,516,000). 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 RMB24,729,000) 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. Based on the legal opinion furnished by lawyers engaged by the Company, the case will likely stand a prolonged period of litigation. As at the date of approval of the financial statements, the Group had not made any payments of compensation pursuant to the aforesaid judgement. Based on the legal opinion furnished by lawyers engaged by the Company, 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.
- (c) 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 first a slowdown in work, followed later by total suspension. In September 2008, the Company initiated 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 Nanshan District People's 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 with the Nanshan District People's Court. As of now, court hearing for the second trial has been completed and the court has ordered trial of the case to be suspended pending final judgement of the case of China Construction Fifth Division at the Intermediate Court. In July 2009, China Construction Fifth initiated another 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. 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. Both trials are suspended. Based on the legal opinion furnished by lawyers engaged by the Company and the existing judgements and current progress of the case, 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.

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13. CONTINGENT LIABILITIES (CONTINUED)

- (d) A lawsuit on breach of agreement and infringement of rights was instituted against the Company and its subsidiary ZTE (USA), Inc. ("ZTE (USA)") by Universal Telephone Exchange, Inc. (UTE) at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE (USA) had violated a confidential agreement between UTE and ZTE (USA), for which UTE was seeking a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract as a result of inappropriate actions of the Company and ZTE (USA), for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. The compensation demanded by UTE as aforesaid amounted to USD50 million in aggregate. The Company's attorney filed a written response to the court denying UTE's charges against the Company and ZTE (USA). Meanwhile, the Company's attorney also disputed the jurisdiction of the said U.S. court over the Company. On 8 February 2011, UTE filed a Discovery Request in respect of the Company and ZTE (USA) in response to the dissent on jurisdiction raised by the Company, and the court gave permission to UTE to conduct investigations in respect of the issue. Our attorney disputed the Discovery Request filed by UTE and applied to the court for the lawsuit to be dismissed on the grounds that UTE's business license in Texas was terminated on 21 May 2010 and therefore, according to Texan laws, had no right to institute lawsuits in Texas or to require the Company to disclose any relevant information. On 29 March 2011, UTE pleaded the court to reject ZTE (USA)'s dissent and to rule in favour of UTE's rights to institute relevant legal actions. The case is currently pending court trial. Based on the legal opinion furnished by the legal counsel engaged by the Company and the existing judgements and current progress of the case, it is difficult to ascertain the final outcome of this case at the present stage.
- (e) Telefonaktiebolaget LM Ericsson (publ) ("Ericsson") instituted a lawsuit against ZTE (UK) LIMITED (ZTE (UK)), a wholly-owned subsidiary of the Company, alleging infringement on Ericsson's patent technologies by several handset models of ZTE (UK) and demanding ZTE (UK) to discontinue such act of infringement and compensate for Ericsson's losses. The Company filed a defense on 20 June 2011 and the case is currently pending trial to be scheduled by the court. On 1 April 2011, Ericsson applied to the Court of Rome for provisional injunction procedures against ZTE Italy S.r.l. ("ZTE Italy"), the subsidiary of ZTE in Italy. Such request was rejected by the court, which ordered Ericsson to serve a claim on ZTE Italy. In response to the aforesaid claims, ZTE Italy submitted its defense to the court and requested the court to reject the litigation claim of the claimant. As at the end of the reporting period, the ruling of the court had not been officially served upon the two parties. On 14 April 2011 and 23 May 2011, Ericsson filed lawsuits against ZTE Deutschland GmbH ("ZTE Deutschland"), a wholly-owned subsidiary of the Company, with the district court of Dusseldorf and the district court of Mannheim in Germany, respectively, alleging infringement of Ericsson's patent technologies and demanding ZTE Deutschland to discontinue such act of infringement and compensate for Ericsson's losses. The local courts have initially set the amount in dispute in this case at EUR10.80 million and EUR2.275 million, respectively. ZTE Deutschland is currently preparing for its defense. Based on the legal opinion furnished by the legal counsel engaged by the Company and the existing judgements and current progress of the case, it is difficult to ascertain the final outcome of this case at the present stage. The Directors are of the view that the aforesaid case will not have any material and adverse impact on the financial conditions and results of operation of the Group for the current period.

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13. CONTINGENT LIABILITIES (CONTINUED)

- (f) On 5 April 2011, a certain customer in Ecuador filed an application for arbitration with the Business Arbitration Tribunal of Guayaquil, Ecuador, claiming that the construction project by the Company had quality problems, thus it claimed USD22.25 million for the cost of rebuilding the network, and USD1.1 million for the cost of monitoring and managing the construction quality of the entire network, totaling USD23.35 million. In response to the demand for arbitration, the legal counsel engaged by the Company has submitted a defense in a timely manner to deny all allegations. Based on the legal opinion furnished by the legal counsel engaged by the Company and the existing judgements and current progress of the cases, it is difficult to ascertain the final outcome of this case at the present stage. The Directors are of the view that the aforesaid case will not have any material and adverse impact on the financial conditions and results of operation of the Group for the current period.

Save as disclosed above, the Company and the Group had no other significant Contingent liabilities as at 30 June 2011.

14. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its offices under operating lease arrangements, with leases negotiated for terms ranging from 1 to 5 years.

At 30 June 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2011 RMB'000	31 December 2010 RMB'000
Within one year	423,536	449,170
More than one year and not longer than five years	988,436	1,062,877
More than five years	178,615	325,130
	1,590,587	1,837,177

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15. COMMITMENTS

Capital commitment

	30 June 2011 RMB'000	31 December 2010 RMB'000
Contracted, but not provided for		
Land and buildings	881,913	747,546
Investments in associates	1,650	76,171
	883,563	823,717
Authorised, but not contracted for Land and buildings	20,015,194	14,227,386

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:

	Notes	Six months ended 30 June 2011 RMB'000	Six months ended 30 June 2010 RMB'000
The controlling shareholder:			
Purchase of raw materials	(a)	175,654	155,882
Sale of finished goods	(b)	1,498	80
Rental expense	(c)	4,414	9,905
Asset transfer		—	152,900
Associates and jointly-controlled entities:			
Purchase of raw materials	(a)	129,865	118,190
Sale of finished goods	(b)	317,745	43,967
Entities controlled by key management personnel of the Group:			
Sale of finished goods	(b)	1,494	4,218
Rental expense	(d)	23,163	21,422
Corporation guarantee		—	8,000
Entities controlled by the controlling shareholder			
Purchase of raw materials	(a)	78,583	99,836
Sale of finished goods	(b)	150	441

In the opinion of the directors, the above transactions were conducted in the ordinary course of business.

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16. RELATED PARTY TRANSACTIONS (CONTINUED)

Notes:

- (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 ranging from RMB30 to RMB115 per square metre.

(II) Compensation of key management personnel of the Group

	Six months ended 30 June 2011 RMB'000	Six months ended 30 June 2010 RMB'000
Short-term employee benefits	3,899	3,535

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17. POST BALANCE SHEET DATE EVENTS

- (a) The plan of capitalisation of the capital reserve of the Company for 2010 was considered and passed at the 2010 Annual General Meeting held on 17 May 2011. The Company made a bonus issue of 2 shares for every 10 shares based on the Company's current total share capital of 2,866,731,684 shares. The equity distribution plan was completed on 7 July 2011.
- (b) On 8 July 2011, ZTE (H.K.) Limited ("ZTE (H.K.)") (as borrower) entered into a USD900 million syndicate loan agreement with 10 international banks including Bank of China (Hong Kong) Limited ("BOCHK") (as mandated lead arranger). In view of the future provision of loan facilities to ZTE (H.K.) by the loan syndicate pursuant to the terms and conditions of the syndicate loan agreement, the Company (as guarantor) entered, upon the request of the loan syndicate, into a guarantee agreement with BOCHK on 8 July 2011 to provide guarantee in favour of the loan syndicate to assure proper fulfillment of payments and all duties of ZTE (H.K.) under the syndicate loan agreement.
- (c) The unlocking of 60,532,063 Subjects Shares under the Third Unlocking of the Phase I Share Incentive Scheme of the Company was completed on 19 July 2011 and the listing and circulation of such shares commenced on 21 July 2011.
- (d) On 29 July 2011, the Company and ZTE USA, the Company's subsidiary in the United States, received a statement of claim filed by a U.S. company, simultaneously with the International Trade Commission (ITC) and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and its US subsidiary of infringement upon its 3G patent rights. In the ITC case, the U.S. company demanded the issue of a permanent exclusion order and injunction that would prevent our terminal products involved in the case from entering the United States. In the case filed with the District Court, damages for losses and payments of attorney fees were also demanded of the defendants, in addition to the plea for injunction, although no specific amount of compensation was named. As of the approval date of the financial statements (30 August 2011), the Company has not paid any compensation or incurred any loss because of the litigation.

18. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 August 2011.

Documents Available for Inspection

1. Text of the 2011 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 2011 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

31 August 2011

