ZTE CORPORATION
中興通訊股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 763)

2008 INTERIM REPORT SUMMARY AND RESULTS ANNOUNCEMENT

1. IMPORTANT

1.1 The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of ZTE Corporation ("ZTE" or the "Company") confirm that this report summary 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 announcement.

The information in this interim report summary is extracted from the full text of the 2008 interim report, which has been published on the website of Shenzhen Stock Exchange (http://www.szse.com.cn), the designated information disclosure website (http://www.cninfo.com.cn) and the website of ZTE (http://www.zte.com.cn). Investors who wish to understand the details of the contents should read the full text of the 2008 Interim Report.

1.2 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.

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

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

1.5 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 2008 interim report.

2. CORPORATE INFORMATION

2.1 Basic information

Abbreviated Name of Stock	ZTE	
Stock code	000063 (A shares)	763 (H shares)
Place of listing	The Shenzhen Stock Exchange	The Stock Exchange of Hong Kong Limited
Abbreviated Name of Bond	中興債1	
Bond code	115003	
Place of listing	The Shenzhen Stock Exchange	
Abbreviated Name of Warrant	中興ZXC1	
Warrant code	031006	
Place of listing	The Shenzhen Stock Exchange	
Registered and office address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China	
Postal code	518057	
Principal place of business in Hong Kong	8/F Gloucester Tower, The Landmark, 15 Queen's Road Central, Central, Hong Kong	
Website	http://www.zte.com.cn	
E-mail	fengjianxiong@zte.com.cn	

	Authorised representatives	**Secretary to the Board of Directors**	**Joint company secretaries**	**Securities affairs representatives**
Name	Yin Yimin Feng Jianxiong	Feng Jianxiong	Feng Jianxiong Ngai Wai Fung	Li Fei
Correspondence Address	6/F, Block A, ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China			
Telephone	+86 755 2677 0282			
Facsimile	+86 755 2677 0286			
E-mail	fengjianxiong@zte.com.cn			

2.2 Accounting Highlights

2.2.1 Major financial data prepared in accordance with PRC ASBEs

Unit: RMB in thousands

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

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

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

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

2.2.2 *Extraordinary profit or loss items*

√ Applicable □ N/A

Unit: RMB in thousands

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

2.2.3 *Major financial data prepared in accordance with HKFRSs*

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

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

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

2.2.4 *Differences in net profits and shareholders' equity under PRC ASBEs and HKFRSs*

□ Applicable √ N/A

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

3. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

3.1 Changes in share capital

√ Applicable □ N/A

Unit: Shares

	Opening balance (31 December 2007)		Increase/decrease (+/-) resulting from changes in the reporting period					Closing balance (30 June 2008)	
	Number	Percentage (%)	Issue of new shares	Bonus issue	Transfer from capital reserve	Others[1]	Sub-total	Number	Percentage (%)
I. Shares subject to lock-up	**311,954,732**	**32.51**	**—**	**—**	**—**	**–47,964,199**	**–47,964,199**	**263,990,533**	**27.51%**
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned legal person shares	310,982,741	32.41	—	—	—	–47,976,083	–47,976,083	263,006,658	27.41%
3. Other domestic shareholders	971,991	0.10	—	—	—	11,884	11,884	983,875	0.10%
Comprising: Domestic non stated-owned legal person shares	—	—	—	—	—	—	—	—	—
Domestic natural person shares (including shares held by senior management)	971,991	0.10	—	—	—	11,884	11,884	983,875	0.10%
4. Foreign shares	—	—	—	—	—	—	—	—	—
Comprising: Foreign legal person shares	—	—	—	—	—	—	—	—	—
Foreign natural person shares	—	—	—	—	—	—	—	—	—
II. Shares not subject to lock-up	**647,566,918**	**67.49**	**—**	**—**	**—**	**47,964,199**	**47,964,199**	**695,531,117**	**72.49%**
1. RMB ordinary shares	487,415,878	50.80	—	—	—	47,964,199	47,964,199	535,380,077	55.80%
2. Domestic-listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares (H Shares)	160,151,040	16.69	—	—	—	—	—	160,151,040	16.69%
4. Others	—	—	—	—	—	—	—	—	—
III. Total number of shares	**959,521,650**	**100**	**—**	**—**	**—**	**—**	**—**	**959,521,650**	**100**

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

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

Schedule 1: Shareholdings of shareholders subject to lock-up and lock-up conditions

(Unit: Shares)

No	Names of shareholders subject to lock-up	Number of shares subject to lock-up as at 31 December 2007	Number of shares released from lock-up during the reporting period	Increase in number of shares subject to lock-up during the reporting period	Number of shares subject to lock-up at the end of the reporting period	Time for listing and trading	Number of additional shares to be listed and traded	Lock-up conditions
1	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited ("Zhongxingxin")	310,982,741	47,976,083	0	263,006,658	29 December 2008	263,006,658	*Note 1 and Note 2*
2	Hou Weigui	164,700	0	0	164,700			
3	Yin Yimin	91,260	0	0	91,260			*Note 3*
4	Zhang Taifeng	91,260	0	0	91,260			
5	Zhou Susu	79,320	0	16,440	95,760			*Note 4*
6	Shi Lirong	71,820	0	0	71,820			
7	Wei Zaisheng	71,820	0	0	71,820			
8	Chen Jie	70,875	0	0	70,875			*Note 3*
9	He Shiyou	68,255	0	0	68,255			
10	Ni Qin	59,130	0	0	59,130			
11	Ding Mingfeng	46,317	0	0	46,317			
12	Zhang Xiufa	41,473	0	0	41,473			*Note 6*
13	Xie Daxiong	33,629	0	0	33,629			
14	Fang Rong	31,039	0	0	31,039			*Note 3*
15	Ye Weimin	25,353	0	0	25,353			
16	Tian Wenguo	18,225	4,556	0	13,669			*Note 3 and Note 5*
17	Qu Deqian	7,515	0	0	7,515			*Note 3*
	Total	311,954,732	47,980,639	16,440	263,990,533	—	—	—

Note 1: The following undertakings relating to the Share Reform Plan were made by Zhongxingxin, the largest shareholder of the Company in the Revised Share Reform Plan of ZTE Corporation announced on the designated website for information disclosure on 23 November 2005:

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

Special undertakings: Where Zhongxingxin sells its shares during the period from the 13th month to the 24th month after such shares have been granted the right of listing and circulation on the Shenzhen Stock Exchange, the price at which the shares are sold shall not be less than RMB30.76 per share, which is 115% of the mathematical average of the closing prices of it's A shares for the 60 trading days prior to the initial announcement made by the Board of the Company regarding the Share Reform Plan, that is, RMB26.75 per share (such price to be calculated on an ex-rights basis and net of any dividends, bonus issues and capitalisation of capital reserve (if any) during the period from the implementation date of the Share Reform Plan to the date of sale). The proceeds from any sale by Zhongxingxin in breach of such undertaking shall be reverted to the Company's account for the benefit of all shareholders of the Company. The price of "RMB30.76" specified in the special undertaking by Zhongxingxin set out above has been adjusted to "RMB30.36" following the implementation of the 2005 and 2006 profit distribution plans of the Company on 14 July 2006 and 27 July 2007, respectively. As at 29 December 2007, the special undertaking had been fully complied with.

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

Time	Number of additional shares to be listed and traded upon expiry of lock-up (shares)	Balance of shares subject to lock-up (shares)	Balance of shares not subject to lock-up (shares)	Explanation
29 December 2008	263,006,658	0	336,574,339	Expiry of lock-up under share reform and disposal of unlocked shares

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

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

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

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

3.2 Shareholdings of Substantial Shareholders as at End of Reporting Period

3.2.1 Shareholdings of top ten shareholders and top ten holders that are not subject to lock-up

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

Top Ten Shareholders

Name of shareholder	Nature of shareholder	Percentage of shareholding (%)	Total no. of shares held (shares)	Number of shares held that are subject to lock-up (shares)	Number of shares pledged or frozen
1. Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	State-owned shareholders	35.08%	336,574,339	263,006,658	None
2. HKSCC Nominees Limited	Foreign shareholders	16.66%	159,824,439	0	Unknown
3. China AMC Dividend Fund	Others	1.88%	18,069,912	0	Unknown

Name of shareholder		Nature of shareholder	Percentage of shareholding (%)	Total no. of shares held (shares)	Number of shares held that are subject to lock-up (shares)	Number of shares pledged or frozen
4.	China International Domestic Demand Dynamic Stock Fund	Others	1.60%	15,392,974	0	Unknown
5.	China International Fund Management Alpha Stock Fund	Others	1.31%	12,552,066	0	Unknown
6.	Hunan Nantian (Group) Co., Ltd	Others	1.19%	11,431,810	0	Unknown
7.	China Post Core Growth Fund	Others	1.08%	10,318,026	0	Unknown
8.	Southern Longyuan Sector Theme Fund	Others	0.94%	8,982,974	0	Unknown
9.	China AMC Advantage Growth Fund	Others	0.85%	8,149,953	0	Unknown
10.	Boshi Value Growth Fund	Others	0.83%	7,999,301	0	Unknown

Shareholdings of top ten holders that are not subject to lock-up

Name of shareholder		Number of shares held that were not subject to lock-up (shares)	Class of shares
1.	HKSCC Nominees Limited	159,824,439	H Shares
2.	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	73,567,681	A Shares
3.	China AMC Dividend Fund	18,069,912	A Shares
4.	China International Domestic Demand Dynamic Stock Fund	15,392,974	A Shares
5.	China International Fund Management Alpha Stock Fund	12,552,066	A Shares
6.	Hunan Nantian (Group) Co., Ltd	11,431,810	A Shares
7.	China Post Core Growth Fund	10,318,026	A Shares
8.	Southern Longyuan Sector Theme Fund	8,982,974	A Shares
9.	China AMC Advantage Growth Fund	8,149,953	A Shares
10.	Boshi Value Growth Fund	7,999,301	A Shares

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

1. Among the Company's top ten shareholders, China AMC Dividend Fund (3rd) and China AMC Advantage Growth Fund (9th) are managed by the same manager, China Asset Management Co., Ltd; China International Domestic Demand Dynamic Stock Fund (4th) and China International Fund Management Alpha Stock Fund (5th) are managed by the same manager, China International Fund Management Co., Ltd.
2. There were no connected party relationships or concerted party relationships between Zhongxingxin and other top ten shareholders and top ten holders of shares not subject to lock-up.
3. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and the top ten holders of shares that are not subject to lock-up.

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

3.2.2 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	0	336,574,339	A shares	263,006,658	73,567,681	Nil

3.3 Changes in controlling shareholder and de facto controller

□ Applicable √ N/A

3.4 Purchase, sale and redemption of shares

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

4. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

4.1 Changes in the Shareholdings of the Company's Directors, Supervisors and Senior Management

√ Applicable □ N/A

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

No	Name	Title	Shareholding at the beginning of the year	Increase in the no. of shares held during the reporting period	Decrease in the no. of shares held during the reporting period	Number of A shares held at the end of the reporting period (shares)	Reason for the change	Quota of Subject Shares granted under Phase I of the Share Incentive Scheme of the Company (shares)
Directors of the Company								
1	Hou Weigui	Chairman	219,600	0	0	219,600		0
2	Wang Zongyin	Vice Chairman	0	0	0	0		10,000
3	Xie Weiliang	Vice Chairman	0	0	0	0		10,000
4	Zhang Junchao	Director	0	0	0	0		10,000
5	Li Juping	Director	0	0	0	0		10,000
6	Dong Lianbo	Director	0	0	0	0		10,000

No	Name	Title	Shareholding at the beginning of the year	Increase in the no. of shares held during the reporting period	Decrease in the no. of shares held during the reporting period	Number of A shares held at the end of the reporting period (shares)	Reason for the change	Quota of Subject Shares granted under Phase I of the Share Incentive Scheme of the Company (shares)
7	Yin Yimin	Director and President	121,680	0	0	121,680		0
8	Shi Lirong	Director and Executive Vice President	95,760	0	0	95,760		0
9	He Shiyou	Director and Executive Vice President	91,007	0	0	91,007		0
10	Zhu Wuxiang	Independent Director	0	0	0	0		0
11	Chen Shaohua	Independent Director	0	0	0	0		0
12	Qiao Wenjun	Independent Director	0	0	0	0		0
13	Mi Zhengkun	Independent Director	0	0	0	0		0
14	Li Jin	Independent Director	0	0	0	0		0
Supervisors of the Company								
15	Zhang Taifeng	Chairman of the Supervisory Committee	121,680	0	0	121,680		0
16	Wang Wangxi	Supervisor	0	0	0	0		0
17	He Xuemei	Supervisor	0	0	0	0		0
18	Qu Deqian	Supervisor	10,020	0	0	10,020		0
19	Wang Yan	Supervisor	0	0	0	0		0
Senior management of the Company								
20	Wei Zaisheng	Executive Vice President and Chief Financial Officer	95,760	0	0	95,760		0
21	Xie Daxiong	Executive Vice President	44,839	0	0	44,839		100,000
22	Tian Wenguo	Executive Vice President	18,225	0	4,556	13,669	*Note 1*	100,000
23	Qiu Weizhao	Executive Vice President	0	0	0	0		100,000
24	Fan Qingfeng	Executive Vice President	0	0	0	0		150,000
25	Chen Jie	Senior Vice President	94,500	0	0	94,500		100,000

No	Name	Title	Shareholding at the beginning of the year	Increase in the no. of shares held during the reporting period	Decrease in the no. of shares held during the reporting period	Number of A shares held at the end of the reporting period (shares)	Reason for the change	Quota of Subject Shares granted under Phase I of the Share Incentive Scheme of the Company (shares)
26	Fang Rong	Senior Vice President	41,385	0	0	41,385		100,000
27	Zhao Xianming	Senior Vice President	0	0	0	0		180,000
28	Ding Mingfeng	Senior Vice President	61,756	0	0	61,756		100,000
29	Pang Shengqing	Senior Vice President	0	0	0	0		150,000
30	Zeng Xuezhong	Senior Vice President	0	0	0	0		150,000
31	Xu Huijun	Senior Vice President	0	0	0	0		180,000
32	Ye Weimin	Senior Vice President	33,804	0	0	33,804		100,000
33	Ni Qin	Senior Vice President	78,840	0	0	78,840		100,000
34	Wu Zengqi	Senior Vice President	0	0	0	0		150,000
35	Feng Jianxiong	Secretary to the Board	0	0	0	0		100,000
Total			**1,128,856**	**0**	**4,556**	**1,124,300**		**1,910,000**

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

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

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

5 REPORT OF THE BOARD OF DIRECTORS

5.1 Review of Business during the first half of 2008

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

A changed scenario of market competition underpinned by more effective full-service operations was brought into shape for China's telecommunications industry as the restructuring of telecommunications operators was unveiled during the first six months of 2008, offering new challenges as well as opportunities for development to industry players. Meanwhile, the trend of mobile communications expanding rapidly at the expense of fixed-line businesses continued. According to the statistics from the Ministry of

Industry and Information Technology, revenue for the telecommunications sector in China grew by 9.2% to RMB398.79 billion in the first six months of 2008, as compared to the same period last year. Fixed assets investments from telecommunications carriers grew 9.9%, as compared to the same period last year, to RMB113.64 billion. The number of fixed users decreased to 356.321 million, which was 9.316 million less compared to the end of last year. On the other hand, there were 600.757 million mobile phone users, an increase of 53.451 million compared to the end of last year.

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

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

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

Operating results of the Group for the first half of 2008

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

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

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

(1) *By market:*

The domestic market

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

The international market

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

(2) *By products*

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

Wireless communications products

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

Optical and data communications products

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

Wireline switch and access products

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

Handsets

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

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

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

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

5.2 Discussion and Analysis in accordance with PRC ASBEs

5.2.1 *Breakdown of principal operations by industry and product segments*

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

Pricing principle for connected transactions	The prices for connected transactions between the Company and connected parties were basically consistent with market prices.
Statement on the necessity and continuity of the connected transactions	Sales by the Company to the connected parties mainly related to distribution of the Company's products by the parties as agent. Such transactions will continue in future.

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

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

5.2.2 *Breakdown of principal operations by geographic region*

Unit: RMB in thousands

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

5.3 Management discussion and analysis prepared in accordance with HKFRSs

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

Sales revenue

Unit: RMB in millions

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

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

Unit: RMB in millions

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

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

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

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

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

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

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

Cost of sales and gross profit

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

Unit: RMB in millions

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

Unit: RMB in millions

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

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

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

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

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

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

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

Other income and revenue, net

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

Research and development costs

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

Selling and distribution costs

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

Administrative expenses

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

Other expenses

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

Profit from operating activities

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

Finance costs

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

Tax

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

Profit attributable to minority interests

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

Net profit and net profit margin

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

Cash flow data

Unit: RMB in millions

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

Operating activities

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

Investing activities

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

Financing activities

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

Disclosure required under the Hong Kong Stock Exchange Listing Rules

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

5.4 Reasons for substantial change in principal business and its structure

□ Applicable √ N/A

5.5 Reasons for substantial change in the profitability (gross profit margin) of principal business compared to the same period last year

□ Applicable √ N/A

5.6 Analysis of reasons for substantial changes in the breakdown of profit as compared to the same period last year

√ Applicable □ N/A

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

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

5.7 Use of proceeds

5.7.1 Use of proceeds

√ Applicable □ N/A

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

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

Unit: RMB in ten thousands

Gross amount of issue proceeds	396,144.35	Gross amount of issue proceeds utilised during the reporting period			106,357	
		Gross amount of issue proceeds utilised to-date			264,051	
Projects committed	Planned investment amount	Any change in project	Actual amount invested	Earnings	Scheduled progress achieved	Projected earnings realised
The building-up of the research and development and production environment and scale production capacity of TD-SCDMA HSDPA system equipment	18,782	No	17,304	See below	Yes	Yes
The building-up of the development environment and scale production capacity of TD-SCDMA terminal products	11,776	No	9,624	See below	Yes	Yes
Industrialisation of TD upgrade technology	67,326	No	8,976	See below	Yes	Yes
Construction of innovative handset platform	174,915	No	95,344	See below	Yes	Yes
Construction of next generation broadband wireless mobile SDR platform	53,358	No	20,926	See below	Yes	Yes
Industrialisation of next generation IP-based amalgamation network for full multi-media services	39,727	No	33,355	See below	Yes	Yes
Research, development and production of integrated network management system	56,635	No	24,303	See below	Yes	Yes
Industrialisation of xPON optical access	49,371	No	21,591	See below	Yes	Yes
Industrialisation of next generation optical network transmission equipment	64,108	No	26,577	See below	Yes	Yes
Construction of ICT integrated business platform	99,647	No	4,471	See below	Yes	Yes
Industrialisation of RFID systems integration	19,394	No	1,580	See below	Yes	Yes
Total	655,039	—	264,051	—	—	—

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

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

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

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

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

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

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

Industrialisation of TD upgrade technology

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

Construction of innovative handset platform

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

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

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

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

Construction of next-generation broadband wireless mobile SDR platform

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

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

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

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

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

Research, development and production of Integrated network management system

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

Industrialisation of xPON optical access

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

Industrialisation of next generation optical network transmission equipment

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

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

Construction of ICT integrated business platform

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

Industrialisation of RFID systems integration

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

5.7.2 ***Changes to projects committed***

☐ Applicable √ N/A

5.8 Revised plan for the Board of Directors' operational plan for the second half of the year

☐ Applicable √ N/A

5.9 Warnings of and reasons for any projected accumulated net loss from the beginning of the year to the end of the next reporting period or substantial change in profitability compared to the same period last year

☐ Applicable √ N/A

5.10 Explanatory statement from the Board of Directors on the accountant's "qualified opinion" for this reporting period

☐ Applicable √ N/A

5.11 Explanatory statement from the Board of Directors on changes and treatment of matters relating to the accountant's "qualified opinion" for last year

☐ Applicable √ N/A

5.12 Business outlook and risk exposure for the second half of 2008

5.12.1 ***Business outlook for the second half of 2008***

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

5.12.2 ***Business risk exposure***

(1) Foreign exchange risks

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

(2) Country risks

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

(3) Credit risks

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

(4) Interest rate risks

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

6. MATERIAL MATTERS

6.1 Acquisition and Sale of Assets and Asset Reorganisation

6.1.1 Acquisition or Purchase of Assets

□ Applicable √ N/A

6.1.2 Sale or Disposal of Assets

□ Applicable √ N/A

6.1.3 Progress of the event and its effects on the operating results and financial position for the reporting period subsequent to the publication of the asset reorganisation report or the announcement on acquisition or sale of assets

□ Applicable √ N/A

6.2 Guarantees

√ Applicable □ N/A

Third party guarantees provided by the Company (excluding guarantees in favour of subsidiaries)

Guaranteed party	Date of incurrence (date of execution of relevant agreements)	Amounts guaranteed	Type of guarantee	Term	Whether fully performed	Whether provided in favour of connected parties (Yes/No)
Djibouti Telecom S.A.	8 September 2006	RMB50 million	Joint liability	12 years	No	No
United Telecoms Limited *(Note 1)*	11 December 2006	73,923,700 Indian Rupee (approximately RMB11,805,600)	Assurance	3 years	No	No
Benin Telecoms S.A. *(Note 2)*	28 June 2007	US$3 million	Assurance	6.5 years	No	No

Total amount guaranteed during the reporting period	0
Total balance of amount guaranteed at the end of the reporting period (A)	RMB82,382,900

Guarantees provided in favour of subsidiaries

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

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

Total guaranteed amount (A + B) *(Note 2)*	RMB482,992,100
Total guaranteed amount as a percentage of net assets of the Company at the end of the reporting period	3.70%
Of which:	
Amounts of guarantees provided in favour of shareholders, de facto controllers and their connected parties (C)	0
Amount of debt guarantee provided directly or indirectly in favour of parties with a liquidity ratio exceeding 70% (D) *(Note 3)*	US$11,405,500
Amount of total guarantee exceeding 50% of net assets (E)	0
Aggregated amount of the three guarantee amounts stated above (C + D + E)	US$11,405,500

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

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

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

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

Note 5: All third party guarantees of the Company shall be submitted to the Board of Directors for its review and shall require the approval of two-thirds of the members of the Board. If such third party guarantees are otherwise subject to review and approval at the general meeting, then they shall be tabled at the general meeting following approval by the Board of Directors.

6.3 Non-recurrent connected creditor's rights and debts

□ Applicable √ N/A

6.4 Material litigation or arbitration

√ Applicable □ N/A

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

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

2. In November 2005, Beijing Success Communications and Electronic Engineering Co., Ltd. instituted litigation against the Company's subsidiary Yangzhou Zhongxing Mobile Telecom Equipment Co., Ltd. ("Yangzhou Zhongxing") and the Company to

demand an indemnity of RMB71 million, comprising the refund of an advanced payment of RMB35 million and compensation for interests and other losses amounting to RMB36 million.

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

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

6.5 Other significant events and analysis of their impact of and solutions

√ Applicable □ N/A

6.5.1 Investment in securities

□ Applicable √ N/A

6.5.2 Equity interests in other listed companies

□ Applicable √ N/A

6.5.3 Equity interests in non-listed financial enterprises and candidates for listing

□ Applicable √ N/A

6.5.4 Progress of Phase I of Share Incentive Scheme during the period

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

6.5.5 Special statement and independent opinion of the Independent Directors on the Group's funds by connected parties and external guarantees of the Company

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

(1) The transfer of funds between the Company and the controlling shareholder and other connected parties represent sales and purchases of goods and property leasing in the ordinary course of business. Such transactions have been conducted on the

basis of fair market prices and were not adverse to the Company's interests. Neither the controlling shareholder of the Company nor its subsidiaries nor other connected parties have appropriated the Company's funds.

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

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

6.5.6 Additional undertaking given by shareholders of the Company holding more than 5% in respect of shares subject to lock-up

□ Applicable √ N/A

6.5.7 *Reception of investors and analysts, communications and press interviews of the Company during the reporting period*

Nature	Location	Date	Mode	Audience received	Contents of discussion	Materials furnished
Presentation of Company	Hong Kong	March 2008	2007 annual results presentation	Analysts and investors	2007 annual report	Published announcements and regular reports
	Hong Kong	March 2008	Teleconference	Analysts and investors	2007 annual report	Published announcements and regular reports
	Shenzhen	March 2008	Analysts' meeting	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	April 2008	Teleconference	Analysts and investors	2008 first quarterly report	Published announcements and regular reports
External meetings	Shenzhen	March 2008	Guotai Junan presentation	Customers of Guotai Junan	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	March 2008	Guangfa Securities presentation	Customers of Guangfa Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	April 2008	Credit Suisse presentation	Customers of Credit Suisse	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	May 2008	Citibank presentation	Customers of Citibank	Day-to-day operations of the Company	Published announcements and regular reports
	Beijing	June 2008	CITIC Securities presentation	Customers of CITIC Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	June 2008	China Jianyin Investment Securities presentation	Customers of China Jianyin Investment Securities	Day-to-day operations of the Company	Published announcements and regular reports

Nature	Location	Date	Mode	Audience received	Contents of discussion	Materials furnished
Company visits by analysts	Company	First half of 2008	On-site visits	**Overseas investors** Merrill Lynch Securities, Citibank, Lehman Brothers, JPMorgan, Deutsche Bank, Brummer & Partners, Prudential, American Century, Goldman Sachs Gao Hua, TB Alternatives Assets, Acre-asset, Matthews International Capital Management, Treasury Asia, GE Assets Management, UOB Kay Hian, Cantillon, Capital World Investors, Fidelity Assets Management, BOCI, UBS, Indus Capital, Edinburgh Partners, Daiwa Securities, Capital International, Yuanta Securities, Citadel Investment Group	Day-to-day operations of the Company	Published announcements and regular reports
	Company	First half of 2008	On-site visits	**Domestic investors** CICC, BOCI, Guotai Junan, Jiashi Fund, Everbright Securities, Ping An Securities, China Nature Fund, Shanghai Fareast Securities, Runhui Investment, New China Assets Management, Gansu Trust, First Shanghai, Zhonghai Fund, Ping An Assets Management, Guangfa Securities Assets Management, China Merchant Securities, SYWG BNP Paribas, TX Investment Consulting, Invesco Great Wall	Day-to-day operations of the Company	Published announcements and regular reports

6.6 Implementation of the Code of Corporate Governance Practices and other matters

6.6.1 Compliance with the Code on Corporate Governance Practices

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.

6.6.2 Securities Transactions by Directors

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

6.6.3 The Audit Committee

The Audit Committee of the Company has discussed with the management accounting standards and practices adopted by the Group, and has also discussed and reviewed the report, including the financial statements of the Group for the six months ended 30 June 2008 prepared in accordance with PRC ASBEs and HKFRSs, respectively.

7. FINANCIAL REPORT

7.1 Audit opinion

√ unaudited □ audited

7.2 Financial statements

7.2.1 Financial statements prepared under PRC ASBEs (unaudited) (Please see Appendix I)

7.2.2 Financial statements prepared under HKFRSs (unaudited) (Please see Appendix II)

7.3 Notes to Financial Statements

7.3.1 Changes in accounting policies, accounting estimates or corrections of accounting errors

□ Applicable √ N/A

7.3.2 *Changes in the scope of consolidated financial statements*

√ Applicable □ N/A

Name of Company	**Change**	**Reason**
Guangzhou Nanfang Telecom System Software Company Limited (廣州南方電信系統軟件有限公司)	Reduction	Equity transfer
ZTE JAPAN K.K.	Addition	New incorporation
ZTE FRANCE SASU	Addition	New incorporation
ZTE Bolivia S.R.L.	Addition	New incorporation

7.3.3 *Explanatory statement in respect of qualified auditors' report*

□ Applicable √ N/A

By order of the Board
Hou Weigui
Chairman

Shenzhen, PRC
20 August 2008

As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Yin Yimin, Shi Lirong and He Shiyou; six non-executive directors, Hou Weigui, Wang Zongyin, Xie Weiliang, Zhang Junchao, Li Juping and Dong Lianbo; and five independent non-executive directors, Zhu Wuxiang, Chen Shaohua, Qiao Wenjun, Mi Zhengkun and Li Jin.

APPENDIX 1: FINANCIAL STATEMENTS PREPARED UNDER PRC ASBEs (UNAUDITED)

Consolidated Balance Sheet

(Prepared under PRC ASBEs)
Unit: RMB'000

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

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

(Prepared under PRC ASBEs)
Unit: RMB'000

	30 June 2008 *(Unaudited)*	31 December 2007 *(Audited)*
Liabilities and shareholders' equity		
Current liabilities:		
Short-term loans	**4,677,405**	2,893,855
Bank advances on factored trade receivables	**153,922**	153,668
Tradable financial liabilities	**30,859**	7,876
Bills payable	**3,927,848**	3,946,429
Trade payables	**8,017,361**	7,856,240
Amount due to customers for contract work	**901,888**	1,597,314
Advances from customers	**2,722,159**	1,491,219
Salary and welfare payables	**975,308**	1,241,839
Taxes payable	**(1,279,627)**	(1,342,330)
Dividend payable	**299,004**	41,180
Other payables and accruals	**1,377,380**	1,314,057
Deferred income	**69,882**	101,695
Provision	**131,463**	126,042
Non-current loans due within one year	**1,303,317**	1,509,569
Total current liabilities	**23,308,169**	20,938,653
Non-current liabilities:		
Long-term loans	**1,813,701**	2,085,229
Bank advances on factored long-term trade receivables	**2,875,777**	3,142,709
Financial guarantee contracts	**3,689**	3,689
Provision for retirement benefits	**34,408**	34,408
Bonds payable	**3,426,855**	—
Deferred tax liabilities	**130,765**	56,460
Specific payables	**80,000**	80,000
Total non-current liabilities	**8,365,195**	5,402,495
Total liabilities	**31,673,364**	26,341,148

(Prepared under PRC ASBEs)
Unit: RMB'000

	30 June 2008	31 December 2007
	(Unaudited)	*(Audited)*
Shareholders' equity:		
Share capital	**959,522**	959,522
Capital reserves	**6,424,998**	5,807,332
Surplus reserves	**1,407,299**	1,364,758
Retained profits	**4,346,076**	3,831,231
Proposed final dividend	**—**	239,880
Exchange differences	**(86,304)**	(65,562)
Total shareholders' equity attributable to the parent company	**13,051,591**	12,137,161
Minority interests	**819,067**	751,247
Total shareholders' equity	**13,870,658**	12,888,408
Total liabilities and shareholders' equity	**45,544,022**	39,229,556

Legal representative of the Company: **Hou Weigui**

Chief Financial Officer: **Wei Zaisheng**

Head of Finance Division: **Shi Chunmao**

Consolidated Income Statement

(Prepared under PRC ASBEs)
Unit: RMB'000

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

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

Consolidated Cash Flow Statement

(Prepared under PRC ASBEs)
Unit: RMB'000

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

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

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

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

Consolidated Statement of Changes in Equity

(Prepared under PRC ASBEs)
Unit: RMB'000

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

Legal representative of the Company: **Hou Weigui**

Chief Financial Officer: **Wei Zaisheng**

Head of Finance Division: **Shi Chunmao**

Unit: RMB'000

Six months ended 30 June 2007

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

Legal representative of the Company: **Hou Weigui**

Chief Financial Officer: **Wei Zaisheng**

Head of Finance Division: **Shi Chunmao**

Balance Sheet

(Prepared under PRC ASBEs)
Unit: RMB'000

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

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

(Prepared under PRC ASBEs)
Unit: RMB'000

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

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

Income Statement

(Prepared under PRC ASBEs)
Unit: RMB'000

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

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

Cash Flow Statement

(Prepared under PRC ASBEs)
Unit: RMB'000

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

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

Legal representative of the Company: **Hou Weigui**

Chief Financial Officer: **Wei Zaisheng**

Head of Finance Division: **Shi Chunmao**

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

Statement of Changes in Equity

(Prepared under PRC ASBEs)
Unit: RMB'000

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

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

(Prepared under PRC ASBEs)
Unit: RMB'000

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

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

APPENDIX 2: FINANCIAL STATEMENTS PREPARED UNDER HKFRSs (UNAUDITED)

Consolidated Income Statement

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

	Note	**Six months ended 30 June 2008 (Unaudited)** *RMB'000*	Six months ended 30 June 2007 (Unaudited) *RMB'000*
Revenue	3	**19,728,984**	15,231,932
Cost of sales		**(13,319,284)**	(9,842,007)
Gross profit		**6,409,700**	5,389,925
Other income and gains		**509,624**	411,715
Research and development costs		**(1,647,898)**	(1,521,489)
Selling and distribution costs		**(2,666,047)**	(2,484,303)
Administrative expenses		**(1,091,232)**	(912,470)
Other expenses		**(333,788)**	(154,357)
Finance costs		**(321,591)**	(119,877)
Share of profits and losses of:			
Jointly-controlled entities		**—**	649
Associates		**9,874**	1,058
PROFIT BEFORE TAX	4	**868,642**	610,851
Tax	5	**(199,216)**	(55,444)
PROFIT FOR THE PERIOD		**669,426**	555,407
Attributable to:			
Equity holders of the parent		**557,386**	459,840
Minority interests		**112,040**	95,567
		669,426	555,407
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	7	**RMB0.41**	RMB0.34
Diluted		**RMB0.41**	RMB0.34

Consolidated Balance Sheet

(Prepared under HKFRSs)
As at 30 June 2008

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

(Prepared under HKFRSs)
As at 30 June 2008

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

Director:
Hou Weigui

Director:
Yin Yimin

1. SUMMARY OF MAJOR ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". Except for the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements. The accounting policies and basis of presentation adopted in the preparation of the interim financial statements are the same as those adopted in the annual financial statements for the year ended 31 December 2007.

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

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

2. SEGMENT INFORMATION

An analysis of the Group's revenue by business and geographical segments for the six months ended 30 June 2008 and 2007 is as follows:

(a) Business segments

	Wireless communications Six months ended 30 June		Wireline switch and access Six months ended 30 June		Optical and data communications Six months ended 30 June		Handsets Six months ended 30 June		Telecommunications software systems services and other products Six months ended 30 June		Consolidated Six months ended 30 June	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue:												
Telecommunications systems contracts	**7,495,122**	6,801,448	**1,115,337**	592,150	**4,242,792**	2,545,361	**—**	—	**1,360,829**	991,461	**14,214,080**	10,930,420
Sale of goods and services	**—**	—	**—**	—	**—**	—	**4,294,615**	3,592,480	**1,220,289**	709,032	**5,514,904**	4,301,512
Total	**7,495,122**	6,801,448	**1,115,337**	592,150	**4,242,792**	2,545,361	**4,294,615**	3,592,480	**2,581,118**	1,700,493	**19,728,984**	15,231,932
Segment results	**1,499,886**	2,068,817	**200,023**	121,797	**957,748**	394,428	**648,304**	253,364	**437,692**	67,216	**3,743,653**	2,905,622
Interest and unallocated gain											**509,624**	411,715
Unallocated expenses											**(3,072,918)**	(2,588,316)
Finance costs											**(321,591)**	(119,877)
Share of profit and losses of:												
Jointly controlled entities											**—**	649
Associates											**9,874**	1,058
Profit before tax											**868,642**	610,851
Tax											**(199,216)**	(55,444)
Profit for the period											**669,426**	555,407

(b) **Geographical segment**

	PRC Six months ended 30 June		Asia (excluding the PRC) Six months ended 30 June		Africa Six months ended 30 June		Others Six months ended 30 June		Consolidated Six months ended 30 June	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue:										
Telecommunications systems contracts	**6,265,192**	5,969,210	**4,222,209**	2,292,233	**2,761,605**	1,733,348	**965,074**	935,629	**14,214,080**	10,930,420
Sale of goods and services	**796,418**	1,292,125	**1,428,068**	1,687,770	**1,072,825**	116,845	**2,217,593**	1,204,772	**5,514,904**	4,301,512
	7,061,610	7,261,335	**5,650,277**	3,980,003	**3,834,430**	1,850,193	**3,182,667**	2,140,401	**19,728,984**	15,231,932

3. REVENUE

Revenue, which is also the Group's turnover, represents the aggregate of attributable contract revenue from telecommunications systems contracts and the invoiced value of goods and services sold net of value-added tax ("VAT") and after allowances for goods returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

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

	Six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
Revenue		
Telecommunications systems contracts	**14,214,080**	10,930,420
Sale of goods and services	**5,514,904**	4,301,512
	19,728,984	15,231,932

4. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
Cost of inventories sold	**11,786,219**	9,622,112
Depreciation	**255,220**	253,327
Amortisation of intangible assets	**40,062**	26,300
Provision for bad and doubtful debts*	**168,191**	55,468
Provision for warranties**	**7,897**	(146,000)
Provision for obsolete inventories and net realizable value**	**31,267**	66,533
Losses on disposal of fixed assets*	**3,459**	5,683
Costs of share incentive scheme	**148,834**	148,834

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

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

5. TAX

	Six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
Group:		
Current — Mainland China	**141,330**	39,242
Current — Overseas	**135,540**	55,279
Deferred	**(77,654)**	(39,077)
Total tax charge for the period	**199,216**	55,444

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Under the new enterprise income tax law effective from 1 January 2008, the tax rate applicable to domestic-invested enterprises and foreign-invested enterprises has been standardised at 25%.

The Company and its subsidiaries incorporated and operating in the PRC Shenzhen Special Economic Zone are subject to the State Council Circular on the Implementation of the Transitional Concession Policies for Corporate Income Tax (Guo Fa [2007] No. 39), which provides that enterprises previously entitled to concession policies of tax rate reductions shall have a grace period of 5 years to comply with the new statutory tax rates, commencing 1 January 2008 after the implementation of the new tax law. Enterprises entitled to a 15% corporate income tax rate will be subject to an 18% tax rate in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012. The Group is subject to the transitional tax rate for the current year in the calculation of taxation. As a hi-tech enterprise of Shenzhen, the Company is currently applying for the status of a national-grade hi-tech enterprise, to which an enterprise income tax rate of 15% shall apply.

6. DIVIDEND

The Directors of the Company do not recommend any payment of interim dividend for the six months ended 30 June 2008 (2007: nil).

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

The calculation of basic earnings per share is based on the profit for the period attributable to holders of the parent and the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to take into account the interests of the bonds cum warrants. The weighted average number of shares used for calculation (as used in the basic earnings per share calculation) represents the number of ordinary shares issued during the period, assuming all bonds cum warrants are deemed to have been converted in full and the weighted average number of ordinary shares issued includes shares issued at no consideration on the deemed exercise of all potentially dilutive shares.

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

	Six months ended 30 June 2008 *RMB'000*	Six months ended 30 June 2007 *RMB'000*
Earnings		
Net profit attributable to ordinary equity holders of the Company for the period	**557,386**	459,840
Interests on potentially dilutive ordinary shares recognised as expenses for the period	**50,111**	—
Income/(expenses) arising on conversion of potentially dilutive ordinary shares	**—**	—
Adjusted net profit attributable to ordinary equity holders of the Company for the period	**607,497**	459,840
Shares		
Weighted average number of ordinary shares of the Company in issue (including bonus shares)**	**1,343,330**	1,343,330
Diluting effect — weighted average number of ordinary shares:		
Restricted Shares under share incentive scheme	**9,596**	—
Bonds cum warrants	**27,167**	—
Adjusted weighted average number of ordinary shares of the Company in issue	**1,380,093**	1,343,330

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

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

8. TRADE AND BILLS RECEIVABLE

Progress payment for telecommunications systems contracts is normally made in accordance with the agreed payment schedule. The Group's trading terms with its major customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 90 days and is extendable up to two years depending on customer's credit profile. The credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

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

	30 June 2008 *RMB'000*	31 December 2007 *RMB'000*
Within 6 months	**9,881,562**	8,153,438
7 to 12 months	**1,819,027**	954,568
1 to 2 years	**360,797**	221,696
2 to 3 years	**4,385**	6,512
Over 3 years	**—**	—
	12,065,771	9,336,214
Less: portion classified as current assets	**(11,484,358)**	(8,755,207)
Long-term portion	**581,413**	581,007

9. TRADE AND BILLS PAYABLE

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

	30 June 2008 *RMB'000*	31 December 2007 *RMB'000*
Within 6 months	**11,829,148**	11,564,337
7 to 12 months	**59,809**	167,747
1 to 2 years	**15,250**	30,528
2 to 3 years	**8,759**	12,151
Over 3 years	**32,243**	27,906
	11,945,209	11,802,669