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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)

2009 INTERIM REPORT SUMMARY
AND ANNOUNCEMENT OF RESULTS

§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.
- 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 Twenty-eighth meeting of the Fourth Session of the Board of Directors of the Company. Mr. Li Juping, Director, was unable to attend the meeting due to work related reasons, and has authorised in writing Mr. Shi Lirong, Director, to vote on his behalf. Mr. He Shiyou, 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. Dong Lianbo, Director, was unable to attend the meeting due to work related reasons, and has authorised in writing Mr. Xie Wailiang, Vice 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 2009 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 2009 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	Company Secretary	Securities affairs representatives
Name	Yin Yimin, Feng Jianxiong	Feng Jianxiong	Feng Jianxiong	Xu Yulong, 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			
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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 2009)	End of the previous year (31 December 2008)	Increase/decrease as at end of reporting period compared with end of the previous year
	Total assets	62,074,205	50,865,921
Shareholders' equity ^{Note 1}	14,761,300	14,249,544	3.59%
Share capital	1,746,329	1,343,330	30.00%
Net assets per share (RMB/share)	8.45^{Note 2}	8.16 ^{Note 2}	3.59% ^{Note 4}

Items	The current reporting period (For the six months ended 30 June 2009)	Corresponding period of the previous year (For the six months ended 30 June 2008)	Increase/decrease for the reporting period of period compared with corresponding period of the previous year
	Operating revenue	27,707,646	19,728,984
Operating profit	633,655	462,922	36.88%
Gross profit	1,211,196	868,642	39.44%
Net profit ^{Note 1}	783,367	557,386	40.54%
Net profit after extraordinary gains or losses ^{Note 1}	754,760	545,707	38.31%
Basic earnings per share (RMB/share)	0.45^{Note 2}	0.32 ^{Note 2}	40.54% ^{Note 4}
Diluted earnings per share ^{Note 3} (RMB/share)	0.44^{Note 2}	0.31 ^{Note 2}	40.54% ^{Note 4}
Return on net assets (%)	5.31%	4.27%	1.04%
Net cashflow from operating activities	-1,175,203	-3,151,205	62.71%
Net cashflow from operating activities per share (RMB/share)	-0.67^{Note 2}	-1.80 ^{Note 2}	62.71% ^{Note 4}

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

Note 2: The Company's plan to increase its capital by way of capitalisation of capital reserves was implemented on 4 June 2009 and the actual number of the Company's total issued share capital was increased from 1,343,330,310 shares to 1,746,329,402. 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 after the capitalisation.

Note 3: In accordance with PRC ASBEs, diluted earnings per share is calculated by dividing net profit attributable to the listed company by the sum of the total share capital of the Company of 1,746,329,402 shares and 55% of the 85,006,813 potentially dilutive ordinary shares representing Subject Shares quota granted under the Phase I Share Incentive Scheme of the Company.

Note 4: The percentage change in the increase/decrease of net assets per share as compared to the end of last year was consistent with the percentage change in the increase/decrease of equity attributable to the shareholders of the parent as compared to the end of last year, but might be different from the percentage change calculated on the basis of actual figures owing to rounding in the calculation of net assets per share.

The percentage change in the increase/decrease of basic and diluted earnings per share as compared to the same period last year was consistent with the percentage change in the increase/decrease of net profit attributable to the shareholders of the parent as compared to the end of the previous year, but might be different from the percentage change calculated on the basis of actual figures owing to rounding in the calculation of earnings per share.

The percentage change in the increase/decrease of net cash flow from operating activities per share as compared to the same period last year was consistent with the percentage change in the increase/decrease of net cash flow from operating activities as compared to the end of the previous year, but might be different from the percentage change calculated on the basis of actual figures owing to rounding in the calculation of net cash flow from operating activities per share.

2.2.2 *Extraordinary profit or loss items*

Applicable N/A

Unit: RMB in thousands

Extraordinary gains or losses items	Amounts
Government grants accounted for in current profit and loss ^{<i>Note</i>}	30,632
Other non-operating income	45,635
Less: Gains/losses arising from the disposal of non-current assets	6,598
Other non-operating expenses	36,014
Effect of income tax	<u>5,048</u>
Total	<u><u>28,607</u></u>

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

2.2.3 Major financial data prepared in accordance with HKFRSs

Items	For the six months ended 30 June 2009	For the six months ended 30 June 2008
Basic earnings per share (<i>RMB</i>)	0.45	0.32
Return on net assets* (%)	5.31%	4.27%

Item	As at 30 June 2009	As at 31 December 2008
Net assets per share* (<i>RMB</i>)	8.45	8.16

* 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 4 June 2009, namely 1,746,329,402 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 fully consistent with those calculated under HKFRSs. The financial statements for the period prepared in accordance with PRC ASBEs did not differ significantly from the combined financial statements for the period prepared under HKFRSs.

§3 CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

3.1 Changes in share capital

Applicable N/A

(I) Changes in Share Capital of the Company as at the end of the Reporting Period

Unit: Shares

	Opening balance (31 December 2008)		Increase/decrease (+/-) resulting from changes in the reporting period					Closing balance (30 June 2009)	
	Number	Percentage (%)	Issue of new shares	Bonus issue	Transfer from capital reserve	Others ¹	Sub-total	Number	Percentage (%)
I. Shares subject to lock-up	1,693,914	0.13	—	—	486,271	(73,010)	413,261	2,107,175	0.12
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned legal person shares	—	—	—	—	—	—	—	—	—
3. Other domestic shares	1,693,914	0.13	—	—	486,271	(73,010)	413,261	2,107,175	0.12
Comprising: Domestic stated-owned legal person shares	—	—	—	—	—	—	—	—	—
Domestic natural person shares (including shares held by senior management)	1,693,914	0.13	—	—	486,271	(73,010)	413,261	2,107,175	0.12
4. Foreign shares	—	—	—	—	—	—	—	—	—
Comprising: Foreign legal person shares	—	—	—	—	—	—	—	—	—
Foreign natural person shares	—	—	—	—	—	—	—	—	—
II. Shares not subject to lock-up	1,341,636,396	99.87	—	—	402,512,821	73,010	402,585,831	1,744,222,227	99.88
1. RMB ordinary shares	1,117,424,940	83.18	—	—	335,249,385	73,010	335,322,395	1,452,747,335	83.19
2. Domestic-listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares (H Shares)	224,211,456	16.69	—	—	67,263,436	—	67,263,436	291,474,892	16.69
4. Others	—	—	—	—	—	—	—	—	—
III. Total number of shares	1,343,330,310	100	—	—	402,999,092	—	402,999,092	1,746,329,402	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 4 June 2009, the Company increased its share capital by way of capitalisation of the capital reserve (creation of 3 shares for every 10 shares based on a total share capital of 1,343,330,310 shares as at 31 December 2008). 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 of Capital Reserve for 2008" dated 5 June 2009.

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 2008	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	Lock-up conditions
1	Hou Weigui	380,600	0	114,179	494,779	Note 1
2	Yin Yimin	202,832	0	60,848	263,680	Note 1
3	Shi Lirong	115,548	0	34,664	150,212	Note 1
4	He Shiyou	110,557	0	33,167	143,724	Note 1
5	Zhang Taifeng	127,764	0	38,329	166,093	Note 1
6	Qu Deqian	10,521	0	3,156	13,677	Note 1
7	Wei Zaisheng	124,173	0	37,252	161,425	Note 1
8	Xie Daxiong	62,081	0	18,624	80,705	Note 1
9	Tian Wenguo	19,136	4,784	4,306	18,658	Note 1 and Note 2
10	Fan Qingfeng	15,000	0	4,500	19,500	Note 1
11	Chen Jie	106,725	0	32,017	138,742	Note 1
12	Zhao Xianming	11,250	0	3,375	14,625	Note 1
13	Pang Shengqing	11,475	0	3,443	14,918	Note 1
14	Zeng Xuezhong	22,500	0	6,750	29,250	Note 1
15	Xu Huijun	11,250	0	3,375	14,625	Note 1
16	Ye Weimin	42,994	0	12,898	55,892	Note 1
17	Ni Qin	97,782	0	29,335	127,117	Note 1
18	Wu Zengqi	15,000	0	4,500	19,500	Note 1
19	Feng Jianxiong	7,500	0	2,250	9,750	Note 1
20	Former senior management shareholders	199,226	86,459	57,536	170,303	
	Total	<u>1,693,914</u>	<u>91,243</u>	<u>504,504</u>	<u>2,107,175</u>	

Note 1: In accordance with relevant domestic regulations, up to 25% of the shares held may be sold through the stock exchange each year.

Note 2: Shareholdings of Mr. Tian Wenguo, Executive Vice President of the Company, released in 2008 were sold during the same year. As at 31 December 2008, 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 2009.

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 52,725 shareholders (of which 52,392 were holders of A shares and 333 were holders of H shares).

Top Ten Shareholders

Name of shareholder	Nature of shareholder	Percentage of shareholding (%)	Total number 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	35.52%	620,214,413	0	None
2. HKSCC Nominees Limited	Foreign shareholders	16.66%	290,895,835	0	Unknown
3. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	Others	2.34%	40,851,542	0	Unknown
4. The Industrial and Commercial Bank of China — Guangfa Jufeng Stock Fund	Others	1.64%	28,562,554	0	Unknown
5. Hunan Nantian (Group) Co., Ltd	Others	1.19%	20,805,894	0	Unknown
6. The Industrial and Commercial Bank of China — Lion Value Growth Stock Fund	Others	0.92%	15,999,960	0	Unknown
7. Industrial Bank — Xingye Trend Investment Hybrid Fund	Others	0.79%	13,864,760	0	Unknown
8. China Construction Bank — Changsheng Tongqing Tradable Stock Fund	Others	0.68%	11,807,627	0	Unknown
9. Jilin Posts and Telecommunications Equipment Company	Others	0.58%	10,046,728	0	Unknown
10. China Mobile Telecommunications No. 7 Research Institute	Others	0.57%	10,028,528	0	Unknown

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

Name of shareholder	Number of shares not subject to lock-up (shares)	Class of shares
1. Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	620,214,413	A Shares
2. HKSCC Nominees Limited	290,895,835	H Shares
3. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	40,851,542	A Shares
4. The Industrial and Commercial Bank of China — Guangfa Jufeng Stock Fund	28,562,554	A Shares
5. Hunan Nantian (Group) Co., Ltd	20,805,894	A Shares
6. The Industrial and Commercial Bank of China — Lion Value Growth Stock Fund	15,999,960	A Shares
7. Industrial Bank — Xingye Trend Investment Hybrid Fund	13,864,760	A Shares
8. China Construction Bank — Changsheng Tongqing Tradable Stock Fund	11,807,627	A Shares
9. Jilin Posts and Telecommunications Equipment Company	10,046,728	A Shares
10. China Mobile Telecommunications No. 7 Research Institute	10,028,528	A Shares

Descriptions of any connected party relationships or concerted party relationships among the above shareholders	1. There were no connected party relationships or concerted party relationships between Zhongxingxin and other top ten shareholders and other top ten holders of shares not subject to lock-up.
	2. 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: During the reporting period, there was no placing of new shares in the Company to any strategic investors or ordinary legal persons that required shareholding for a designated period.

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	143,126,403	620,214,413	A shares	0	620,214,413	Nil

Note: The change in the shareholdings of Zhongxingxin during the reporting period was attributable to the implementation of the profit distribution and capitalisation of capital reserves for 2008 (creation of 3 shares for every 10 shares on the basis of the total share capital of 1,343,330,310 shares as at 31 December 2008).

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 Subject Shares under the Share Incentive Scheme granted to the Directors, Supervisors and senior management of the Company at the end of the period are as follows:

No	Name	Title	Number of A shares held at the beginning of the period (shares)	Increase in the number of shares held during the reporting period	Decrease in the number of shares held during the reporting period	Number of A shares held at the end of the reporting period (shares)	Reason for the change	Number of Subject Shares granted under the Phase I Share Incentive Scheme of the Company (shares)
Directors of the Company								
1	Hou Weigui	Chairman	507,466	152,240	0	659,706	<i>Note 1</i>	0
2	Wang Zongyin	Vice Chairman	0	0	0	0		18,200
3	Xie Weiliang	Vice Chairman	0	0	0	0		18,200
4	Zhang Junchao	Director	0	0	0	0		18,200
5	Li Juping	Director	0	0	0	0		18,200
6	Dong Lianbo	Director	0	0	0	0		18,200
7	Yin Yimin	Director and President	270,442	81,132	0	351,574	<i>Note 1</i>	0
8	Shi Lirong	Director and Executive Vice President	154,064	46,219	0	200,283	<i>Note 1</i>	0
9	He Shiyong	Director and Executive Vice President	147,410	44,223	0	191,633	<i>Note 1</i>	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	170,352	51,106	0	221,458	<i>Note 1</i>	0
16	Wang Wangxi	Supervisor	0	0	0	0		0
17	He Xuemei	Supervisor	0	0	0	0		0
18	Qu Deqian	Supervisor	14,028	4,208	0	18,236	<i>Note 1</i>	0
19	Wang Yan	Supervisor	0	0	0	0		0
Senior management officers of the Company								
20	Wei Zaisheng	Executive Vice President and Chief Financial Officer	165,564	49,669	0	215,233	<i>Note 1</i>	0
21	Xie Daxiong	Executive Vice President	82,775	24,832	0	107,607	<i>Note 1</i>	182,000
22	Tian Wenguo	Executive Vice President	19,136	5,741	0	24,877	<i>Note 1</i>	182,000
23	Qiu Weizhao	Executive Vice President	0	0	0	0		182,000
24	Fan Qingfeng	Executive Vice President	20,000	6,000	6,500	19,500	<i>Note 1 and Note 2</i>	273,000
25	Chen Jie	Senior Vice President	142,300	42,690	0	184,990	<i>Note 1</i>	182,000
26	Zhao Xianming	Senior Vice President	15,000	4,500	0	19,500	<i>Note 1</i>	327,600
27	Pang Shengqing	Senior Vice President	15,300	4,591	0	19,891	<i>Note 1</i>	273,000
28	Zeng Xuezhong	Senior Vice President	30,000	9,000	0	39,000	<i>Note 1</i>	273,000
29	Xu Huijun	Senior Vice President	15,000	4,500	0	19,500	<i>Note 1</i>	327,600
30	Ye Weimin	Senior Vice President	57,326	17,198	0	74,524	<i>Note 1</i>	182,000
31	Ni Qin	Senior Vice President	130,376	39,113	0	169,489	<i>Note 1</i>	182,000
32	Wu Zengqi	Senior Vice President	20,000	6,000	0	26,000	<i>Note 1</i>	273,000
33	Zhu Jinyun	Senior Vice President	0	0	0	0		253,708
34	Zhang Renjun	Senior Vice President	0	0	0	0		0
35	Feng Jianxiong	Secretary to the Board	10,000	3,000	0	13,000	<i>Note 1</i>	182,000
Total			<u>1,986,539</u>	<u>595,962</u>	<u>6,500</u>	<u>2,576,001</u>		<u>3,365,908</u>

- Note 1:* The profit distribution and capitalisation of capital reserves for 2008 (creation of 3 shares for every 10 shares and RMB3 for every 10 shares (including tax) in cash) were implemented on 4 June 2009. The shareholdings of Directors, supervisors and senior management are adjusted accordingly.
- Note 2:* 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 3:* None of the Company’s Directors, Supervisors and senior management held H shares in the issued share capital of the Company during the reporting period.
- Note 4:* Subject shares granted under the Phase I Share Incentive Scheme of the Company have been registered with China Securities Depository and Clearing Company Limited, Shenzhen Branch and the release of lock-up for the Subject Shares of the Phase I Share Incentive Scheme of the Company was completed on 22 July 2009. A total of 673,182 Subject Shares granted to 19 directors and senior management officers currently in office shall continue to be locked up and subject to sale restriction under the relevant regulations of the Company Law and the Guidelines for the Administration of Company Shareholdings by Directors, Supervisors and Senior Management Officers of Companies Listed on Shenzhen Stock Exchange and Changes in Shareholdings (《深圳證券交易所上市公司董事、監事和高級管理人員所持本公司股份及其變動管理業務指引》). For details, please refer to the “Announcement of the Completion of Release of Lock-up for Subject Shares under the First Unlocking of the Phase I Share Incentive Scheme” of the Company dated 23 July 2009.

§5 REPORT OF THE BOARD OF DIRECTORS

5.1 Review of Business in the first half of 2009

Overview of the PRC telecommunications industry in the first half of 2009

During the first half of 2009, the three leading PRC carriers continued to step up with their 3G network building, complemented by an increasingly diverse range of competitive behaviour. In general, overall carriers’ investments sustained stable growth, while mobile equipment remained a key subject for carriers’ investments. According to statistics published by the Ministry of Industry and Information Technology, the domestic telecommunications industry reported revenue of RMB417.07 billion for the first half of 2009, representing a year-on-year growth of 2.3%. New fixed asset investments grew 13.6% to RMB129.14 billion. Total telecommunications business volume and revenue for the second quarter grew by 12.7% and 2.7%, respectively, beating the corresponding growth rates for the first quarter.

Overview of the global telecommunications industry in the first half of 2009

Intense competition remained in the global telecommunications market during the first half of 2009. Despite a slowdown in overall growth, revenue from global mobile voice businesses continued to account for a major portion in carriers’ income, with stable development reported in emerging markets such as the Asia Pacific and Latin America. The global 3G business had moved into the stage of rapid development after a prolonged induction period. Regionally speaking, 2G and 3G networks in developed countries had moved into the replacement stage, while network construction was at its peak in emerging markets. There was growing demand for bandwidth upgrade and service innovation among carriers, as they sought to cope with the fast penetration of 3G and the development of mobile Internet connections driven by carriers’ attempts to gain an upper hand in market competition.

Operating results of the Group for the first half of 2009

The Group delivered positive operating results for the first half of 2009 as it succeeded in holding down the impact of the financial crisis. The Group gained new market shares in the global wireless market, particularly in the 3G sector, while synchronous developments were achieved in the sectors for FTTX and carriers networks. We also maintained stable growth in our terminal business.

Operating revenue of the Group for the first half of 2009 amounted to RMB27.71 billion, representing a year-on-year growth of 40.4%. Net profit grew 40.5% to RMB780 million. Earnings per share amounted to RMB0.45.

(1) By market

The domestic market

Development of the domestic equipment manufacturing industry gained pace during the period with the benefit of the full-scale construction of 3G networks in China. The Group reported operating revenue of RMB14.95 billion in the domestic market during the reporting period, representing a year on-year growth of 111.7%. The performance of the Company's wireless products at the network tenders of China Unicom and China Telecom held during the first half of the year was in line with expectations. On the back of its cost advantage and customisation capabilities, the Company achieved significant breakthroughs in the coastal provinces and other prosperous regions.

The international market

During reporting period, the Group's revenue from its international operations grew 0.7% to RMB12.76 billion and accounted for 46.0% of its total operating revenue. Second-generation (2G) network construction and capacity expansion in key markets in developing countries coupled with the demand for bandwidth upgrades and innovative services in developed countries, formed the cornerstone that underpinned the stable development of the Group's international market. Meanwhile, the Company was charting new frontiers in its cooperation with global mainstream carriers, creating opportunities for in-depth market development in future.

(2) By product

Analysed by products, the Group registered year-on-year revenue growth of 46.2% for carriers' networks, 29.8% for terminal products and 29.2% for telecommunication software systems, services and other products during the reporting period.

Carriers' networks

While the construction of 2G networks (represented mainly by GSM networks) continued to account for a dominant share in overall capital expenditure during the first half of 2009, products and technologies for 2/3G amalgamation solutions (SDR solutions) became a growing focus for carriers as research and development was closing in to getting ready for commercial application, as the global 3G market continued to expand rapidly.

In terms of wireless products, solid foundations had been laid for greater cooperation with international as well as domestic mainstream carriers in future, as the Group capitalised on opportunities presented by domestic 3G construction to put itself in a dominant position in 3G project tenders for three modes. Progress was also being made in the Group's cooperation with mainstream carriers in Europe and America.

In terms of wireline products, the Company continued to be a forerunner in XDSL, while in FTTX integrated competitive strengths with a global leading edge had been fostered. The Company maintained favourable market positions for carrier networks, core networks, data and service products.

Terminal

Revenue for carriers and terminal manufacturers was generally affected during the first half of 2009 as recovery of consumers' demand for terminals was slow amid continued weakness in the global economy. Against an unfavourable macro-economic environment, however, the terminal business of the Group still managed a 29.8% growth.

The Group attained significant progress in product and market mix during the reporting period as it dispensed major efforts to develop 3G products, data cards and smart phones in line with carriers' requirements, while continuing to improve its market share and competitive strengths for carriers' handset customisation and maintain its dominance in the low-end market for GSM and CDMA terminal products. In the case of 3G products, the Group has by now launched over 40 terminal products in nine categories for the three modes, covering virtually all types of 3G terminal products. Market-wise, our terminal products (3G products in particular) managed to break into the three leading high-end markets of Europe, North America and Japan. In terms of high-end products, the smart phones of the Company tapped the mainstream market comprising carriers in developed countries and the three leading PRC carriers. Meanwhile, the Group continued to increase investment in new products and technologies, with systematic developments in the investment and research and development of LTE and WIMAX technologies to foster competitive strengths for its terminal products.

Telecommunication software systems, services and other products

Growth for the segment was driven by stronger sales of fixed terminals and service products.

Difficulties encountered by the Group in its operations during the first half of 2009

The Company faced a challenging task in international market development during the reporting period, as the global economy remained in gloomy conditions in the aftermath of the financial tsunami. International carriers were generally more concerned with investment return and the cost for long-term ownership, compelling the Company to raise its standards in terms of cost control, business marketing and integrated solutions.

5.2 Management discussion and analysis prepared in accordance with PRC ASBEs

5.2.1 Breakdown of principal operations by industry and product segments

By industry or product	Operating revenue (RMB in thousands)	Operating Costs (RMB in thousands)	Gross profit margin	Year-on-year Increase/decrease in operating revenue	Year-on-year Increase/decrease in operating costs	Year-on-year Increase/decrease in gross profit margin
I. By industry						
Manufacturing of communication equipment	27,707,646	18,824,349	32.06%	40.44%	43.67%	-1.53%
II. By product						
Carriers' networks	18,796,810	12,419,048	33.93%	46.24%	52.22%	-2.59%
Terminal*	5,575,904	4,071,617	26.98%	29.83%	28.78%	0.60%
Telecommunication software systems, services and other products	<u>3,334,932</u>	<u>2,333,684</u>	<u>30.02%</u>	<u>29.20%</u>	<u>30.98%</u>	<u>-0.95%</u>
Total	<u>27,707,646</u>	<u>18,824,349</u>	<u>32.06%</u>	<u>40.44%</u>	<u>43.67%</u>	<u>-1.53%</u>
Of which: connected transactions**	60,940	36,009	40.91%	26.28%	15.98%	5.25%

Pricing principle for connected transactions The prices for connected transactions between the Company and connected parties were basically consistent with market prices.

Statement on the necessity and the ongoing nature of the connected transactions Sales by the Company to the connected parties mainly related to distribution of the Company's products by the parties as agent. Such transactions will continue in future.

Of which: connected transactions involving sales of products or provision of labour services to the controlling shareholder and its subsidiaries by the Company during the Reporting Period amounted to RMB337,000.

* The product category of "Handset" has been renamed "Terminal" for a more accurate representation of the Company's product classification. The change does not affect the figures set out above. Terminal products of the Company include handsets and data card products.

** 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	Operating revenue	Year-on-year Increase/decrease in operating revenue
The PRC	14,950,479	111.71%
Asia (excluding the PRC)	6,450,316	14.16%
Africa	2,497,366	-34.87%
Other regions	<u>3,809,485</u>	<u>19.69%</u>
Total	<u>27,707,646</u>	<u>40.44%</u>

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.

Operating revenue

Unit: RMB in millions

Product segment	For the six months ended 30 June 2009		For the six months ended 30 June 2008	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
Carriers' networks	18,796.8	67.8%	12,853.2	65.1%
Terminal	5,575.9	20.1%	4,294.6	21.8%
Telecommunication software systems, services and other products	<u>3,334.9</u>	<u>12.1%</u>	<u>2,581.2</u>	<u>13.1%</u>
Total	<u>27,707.6</u>	<u>100.0%</u>	<u>19,729.0</u>	<u>100.0%</u>

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

Unit: RMB in millions

Region	For the six months ended 30 June 2009		For the six months ended 30 June 2008	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
The PRC	14,950.4	54.0%	7,061.6	35.8%
Asia (excluding the PRC)	6,450.3	23.3%	5,650.3	28.6%
Africa	2,497.4	9.0%	3,834.4	19.4%
Other regions	<u>3,809.5</u>	<u>13.7%</u>	<u>3,182.7</u>	<u>16.2%</u>
Total	<u>27,707.6</u>	<u>100.0%</u>	<u>19,729.0</u>	<u>100.0%</u>

The Group reported RMB27,707.6 million in operating revenue for the first half of 2009, a 40.4% growth compared to last year. Operating revenue from international sales was stable, growing 0.7% to RMB12,757.2 million. Analysed by product, revenue growth was reported in all product segments in varying degrees.

The growth in operating revenue from the Group's carriers' networks segment was attributable mainly to the growth in domestic sales of CDMA, TD-SCDMA and WCDMA system equipment.

The increase in operating revenue from the Group's terminal product segment was driven mainly by sales growth for CDMA terminals in the domestic market and for 3G terminals in both the domestic and the European markets.

The increase in operating revenue from the Group's telecommunications software systems, services and other products was mainly driven by growth in the sales of service products and fixed terminals.

Cost of sales and gross profit

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

Unit: RMB in millions

Product segment	For the six months ended 30 June 2009		For the six months ended 30 June 2008	
	Cost of sales	As a percentage of segment revenue	Cost of sales	As a percentage of segment revenue
Carriers' networks	12,746.0	67.8%	8,303.0	64.6%
Terminal	4,108.8	73.7%	3,184.6	74.2%
Telecommunication software systems, services and other products	<u>2,410.4</u>	<u>72.3%</u>	<u>1,831.7</u>	<u>71.0%</u>
Total	<u><u>19,265.2</u></u>	<u><u>69.5%</u></u>	<u><u>13,319.3</u></u>	<u><u>67.5%</u></u>

Unit: RMB in millions

Product segment	For the six months ended 30 June 2009		For the six months ended 30 June 2008	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Carriers' networks	6,050.8	32.2%	4,550.2	35.4%
Terminal	1,467.1	26.3%	1,110.0	25.8%
Telecommunication software systems, services and other products	<u>924.5</u>	<u>27.7%</u>	<u>749.5</u>	<u>29.0%</u>
Total	<u><u>8,442.4</u></u>	<u><u>30.5%</u></u>	<u><u>6,409.7</u></u>	<u><u>32.5%</u></u>

Cost of sales of the Group for the first half of 2009 increased 44.6% as compared to last year to RMB19,265.2 million. The Group's overall gross profit margin of 30.5% was 2.0 percentage points lower versus 32.5% for the same period last year, mainly as a result of strategic investments made towards key regions or telecommunications carriers.

Cost of sales for the Group's carriers' networks amounted to RMB12,746.0 million, a 53.5% increase as compared to the same period last year. The gross profit margin for carriers' networks was 32.2%, which was 3.2 percentage points lower versus 35.4% for the same period last year, reflecting weaker gross profit margins for optical communications system products and GSM system equipment.

Cost of sales for the Group's terminal products amounted to RMB4,108.8 million, increasing by 29.0% compared to the same period last year. Gross profit margin for the Group's terminal segment was 26.3%, versus 25.8% for the same period last year. The higher gross profit margin for terminal was attributable mainly to improved gross profit for terminal products in the domestic market.

Cost of sales for the Group's telecommunications software systems, services and other products amounted to RMB2,410.4 million, increasing by 31.6% compared to for the same period last year. The relevant gross profit margin was 1.3 percentage points lower at 27.7%, compared to 29.0% for the same period last year, reflecting primarily the year-on-year decline in gross profit for services and telecommunication operations products.

Other income and revenue, net

Other income and revenue of the Group the first half of 2009 amounted to RMB793.4 million, representing a 55.7% growth compared to RMB509.6 million for the same period last year. The increase reflected primarily growth in value-added tax rebates for software products and government subsidies.

Research and development costs

The Group's research and development costs for the first half of 2009 increased by 58.2% to RMB2,606.4 million from RMB1,647.9 million for the same period of 2008, and grew from 8.4% to 9.4% as a percentage of operating revenue. The increase in research and development costs was attributable mainly to increased investments in the research and development of UMTS and TD-SCDMA, etc.

Selling and distribution costs

The Group's selling and distribution costs the first half of 2009 increased by 21.2% to RMB3,230.2 million from RMB2,666.0 million for the same period last year, but decreased from 13.5% to 11.7% as a percentage of operating revenue reflecting economies of scale. The increase in selling and distribution costs was attributable mainly to increased staff costs and travel expenses in line with business expansion and extended market coverage.

Administrative expenses

Administrative expenses of the Group for the first half of 2009 increased by 31.1% to RMB1,430.6 million, as compared to RMB1,091.2 million for the same period last year, but decreased from 5.5% to 5.2% as a percentage of operating revenue. The increase in the total amount of administrative from expenses reflected mainly expanded business scale and the increase in staff expenses.

Other expenses

Other expenses of the Group for the first half of 2009 increased by 12.6% to RMB375.7 million, as compared to RMB333.8 million for the same period last year. This reflected primarily the increase in asset impairment losses partially offset by exchange gains arising from the appreciation of certain non-USD currencies against the US Dollar.

Profit from operating activities

The Group's profit from operating activities for the first half of 2009 increased by 34.9% to RMB1,592.9 million, as compared to RMB1,180.4 million for the same period of 2008, primarily as a result of expanded business scale.

Finance costs

Finance costs of the Group for the first half of 2009 increased by 22.0% to RMB392.2 million, as compared to RMB321.6 million for the same period last year, reflecting primarily higher interest payments for interest-bearing bank borrowings.

Tax

The Group's income tax expense for the first half of 2009 was RMB342.5 million, which was 71.9% higher as compared to RMB199.2 million for the same period last year. Income tax expense as a percentage of profit before tax also increased from 22.9% to 28.3%, compared to the same period last year, reflecting mainly the reversal of deferred income tax assets and increased profit for certain subsidiaries for the first half of 2009.

Profit attributable to minority interests

The Group's minority interests for the first half of 2009 amounted to RMB85.4 million, which was 23.8% lower as compared to RMB112.0 million for the same period last year. Minority interests decreased from 16.7% for the same period last year to 9.8% for the current period as a percentage of net profit, reflecting mainly reduced profit for 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 2009 increased by 40.5% to RMB783.4 million, compared to RMB557.4 million for the same period of 2008. Net profit margin (excluding minority interests) was 2.8%, largely unchanged from the same period in 2008.

Debt-equity ratio

As at the end of the first half of 2009, the Group's debt-equity ratio was 46.4%, increasing by 5.6 percentage points as compared to 40.8% at the end of 2008. The increase was mainly attributable to additional bank borrowings sought by the Group as appropriate to capitalise on the government's loosened monetary policy and lower interest costs.

Cash flow data

Unit: RMB in millions

Items	For the six months ended 30 June 2009	For the six months ended 30 June 2008
Net cash outflow from operating activities	(1,792.3)	(3,495.5)
Net cash outflow from investing activities	(522.3)	(555.4)
Net cash inflow from financing activities	3,097.5	5,267.2
Net increase/(decrease) in cash and cash equivalents	782.9	1,216.3

Operating activities

The Group had a net cash outflow from operating activities of RMB1,792.3 million for the first half of 2009 compared to RMB3,495.5 million for the same period of 2008, reflecting year-on-year increase of cash outflow for purchases by RMB1,490.8 million mainly as a result of expanded sales, increase of cash outflow for payments made to employees by RMB960.9 million and increase of dividend or interest payments by RMB466.0 million; coupled with increase of cash inflow from operating revenue by RMB5,731.3 million.

Investing activities

The net cash outflow from the Group's investment activities for the first half of 2009 was RMB522.3 million compared to a net cash outflow of RMB555.4 million for the same period of 2008, reflecting primarily a RMB296.6 million decrease in the cash outlay for the acquisition of fixed assets, intangible assets and other long-term assets combined with a RMB215.2 million increase in restricted bank deposits.

Financing activities

The Group's a net cash inflow from financing activities for the first half of 2009 was RMB3,097.5 million, reflecting mainly a net increase of RMB3,063.5 million in bank loans.

Disclosure required under the Hong Kong Stock Exchange Listing Rules

In accordance 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 2008 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 2009	As a percentage of total profit for the six months ended 30 June 2008	Change (percentage points)
Operating profits	52.32%	53.29%	-0.97%
Expenses for the period	620.76%	667.40%	-46.64%
Investment gains	0.19%	5.95%	-5.76%
Non-operating income and expenditure, net	47.68%	46.71%	0.97%

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 As at the end of the first half of 2009, the Group's consolidated gearing ratio and ratio of interest-bearing liabilities was 74.7% and 21.9%, respectively, increasing by 4.6 percentage points and 1.3 percentage points, respectively, as compared to the previous year-end. The increase was mainly attributable to additional bank borrowings and longer purchase payment periods sought by the Group as appropriate to capitalise on the government's loosened monetary policy and lower interest costs. In the second half of 2009, the Group will adjust its credit policy as appropriate depending on changes in the external environment while strengthening management to keep payment collection in a balanced manner, with a view to controlling the gearing ratio at a reasonable level.

5.8 Updates on Use of Proceeds

5.8.1 Use of Proceeds

Applicable N/A

(1) Use of issue proceeds during the reporting period.

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

The application of proceeds from the issue of the Bonds cum Warrants during the reporting period was in compliance with the Administrative Measures of Shenzhen Stock Exchange for Issue Proceeds of Listed Companies (《深圳證券交易所上市公司募集資金管理辦法》). The Company utilised RMB81,443,500 of the issue proceeds during the reporting period and a total of RMB3,961,443,500 had been utilised on an accumulative basis. As at 30 June 2009, proceeds from the issue of Bonds cum Warrants by the Company had been fully utilised.

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		utilized during the reporting period		8,144.35					
<u>Gross amount of issue proceeds</u>													
<u>Gross amount of issue proceeds for which use has been changed</u>				0		<u>Gross amount of issue proceeds utilized to-date</u>		396,144.35					
<u>Proportion of gross amount of issue proceeds for which use has been changed</u>				0									
Projects committed	Any change in project (including partial changes)	Total amount of issue proceeds committed to investment	Investment amount planned as at the end of the period (1)	Amount invested during the period	Accumulated investment as at the end of the period (2)	Difference between accumulated investment amount planned as at the end of the period (2)-(1)	Progress of investment as at the end of the period (2)/(1)	Period for return of capital (year)	Earnings	Anticipated benefits attained	Significant change to project feasibility		
The building-up of the research and development and production environment and scale production capacity of TD-SCDMA HSDPA system equipment	No	18,782	N/A	0	18,782.00	N/A	N/A	3.03	See below	Yes	No		
The building-up of the development environment and scale production capacity of TD-SCDMA terminal products	No	11,776	N/A	0	11,776.00	N/A	N/A	4.12	See below	Yes	No		
Industrialisation of TD upgrade technology	No	67,326	N/A	13,460.92	54,672.43	N/A	N/A	5.70	See below	Yes	No		
Construction of innovative handset platform	No	174,915	N/A	38,032.91	174,915.00	N/A	N/A	5.29	See below	Yes	No		
Construction of next generation broadband wireless mobile SDR platform	No	53,358	N/A	13,612.97	51,119.94	N/A	N/A	5.93	See below	Yes	No		
Industrialisation of next generation IP-based amalgamation network for full multi-media services	No	39,727	N/A	0	39,727.00	N/A	N/A	5.49	See below	Yes	No		
Research, development and production of integrated network management system	No	56,635	N/A	14,356.48	44,844.19	N/A	N/A	5.31	See below	Yes	No		
Industrialisation of xPON optical access	No	49,371	N/A	14,819.29	47,548.31	N/A	N/A	5.42	See below	Yes	No		
Industrialisation of next generation optical network transmission equipment	No	64,108	N/A	12,140.50	52,079.97	N/A	N/A	5.05	See below	Yes	No		
Construction of ICT integrated business platform	No	99,647	N/A	24,693.83	79,610.42	N/A	N/A	3.94	See below	Yes	No		
Industrialisation of RFID systems integration	No	19,394	N/A	5,934.18	15,806.07	N/A	N/A	5.02	See below	Yes	No		
Total	—	<u>655,039</u>	—	<u>137,051.08</u>	<u>590,881.33</u>	—	—	—	—	—	—		

Non-fulfillment of scheduled progress or anticipated earnings and reasons	The scheduled progress of projects utilising proceeds from the issue of Bonds cum Warrants of the Company was fulfilled.
Significant change to project feasibility	Nil
Change to implementation location of investment projects using issue proceeds	Nil
Change to implementation method of investment projects using issue proceeds	Nil
Initial investments and fund replacements in investment projects using issue proceeds	In order to expedite the construction of issue proceeds investment projects, the Company had used internal funds for initial investments in issue proceed investment projects prior to the receipt of the issue proceeds. As at 31 December 2007, the total 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.
Application of idle funds as additional working capital	There was no application of idle funds as additional working capital.
Amount of issue proceeds in surplus of requirements for project implementation and reasons	There were no Company issue proceeds in surplus of requirements for project implementation.
Use and whereabouts of unutilised issue proceeds	As at 30 June 2009, proceeds from the issue of Bonds cum Warrants by the Company had been fully utilised.
Issues in and other information on the use of issue proceeds and its disclosure	Nil

Note 1: There was no adjustment to the total amount of issue proceeds committed to investment.

Note 2: As at 30 June 2009, the Company had invested RMB5,908,813,300 in issue proceed investment projects. Investments in certain projects had reached the agreed amounts set out in issue prospectuses and the portion in excess had been funded by the Company’s internal resources. Such portion would be replaced if the warrants are exercised upon maturity.

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

The building-up of the R&D and production environment and scale production capacity of TD-SCDMA HSDPA system equipment

With the completion of ancillary facilities for production environments such as the assembly environment, adjustment and testing environment and high-temperature aging environment, the project was ready for large-scale production and commercial supply. System equipment for the Phase I and Phase II tenders of China Mobile reported stable commercial application for over 90 days.

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

On the basis of the research and development of TD-SCDMA terminals, ZTE completed the development, commercial production and market launch of various HSDPA-based products, such as handsets, data cards, modules, and fixed terminals. In addition, the research and development of dual-mode terminals was commenced to satisfy forthcoming market demand for dual-mode TD-SCDMA terminals. ZTE has plans to kick off platform introduction and product development in the second half of 2009 to address the forthcoming HSUPA platform. Our focus on the second half of 2009 will be the development of new products that meet the needs of the market.

Industrialisation of TD upgrade technology

In response to the official confirmation of TD-LTE as the major approach to TD upgrade technologies by the PRC Ministry of Industry and Information Technology, ZTE built an experienced research team to conduct the research and development of key technologies, system products and networking technologies for TD-LTE, with the aim of driving TD-LTE industrialisation.

In October 2008, the TD-LTE pre-commercial sample set developed by ZTE was unveiled at the Beijing Communications Exhibition.

In May 2009, the leading-edge SDR commercial technology platform developed by ZTE passed the GSM, TD-SCDMA and TD-LTE co-platform testing.

Construction of innovative handset platform

Handset TVs: The new handset service platform was put to commercial application after initial completion of its platform architecture, initial development of domestic and international mainstream handset TV standards and related technologies, and completion of testing for major markets. Next the Group will continue to improve its functionality and continue to track the development and new technological progress of other TV standards.

Smart handsets: The WCDMA full keypad handsets operating on the Qualcomm platform are currently available for dispatch in the overseas market, while in the PRC they were the only domestic-made high-end smart phones in the first series of China Unicom's customised handset models. The large touch-screen smart handset is currently under development.

GoTa handsets: Subsequent to the completion of the research and development and commercial production of the explosion-proof terminal (G780IS) and the off-line direct access terminal (G783), four new models of GoTa terminals, namely G880, G660, G79 and S580, were launched during the period.

IMS customer-end software platform: The commercial version of the IMS customer-end software was completed and launched on the TD-SCDMA terminal during the first half of 2009.

Construction of next-generation broadband wireless mobile SDR platform

Currently, the switching to SDR platform has been completed in respect of all wireless base station products of the Company, namely, GSM/UMTS/CDMA/WIMAX/LTE/TD-SCDMA. Meanwhile, efforts to buffer up the SDR platform continued as research and development of a triple-layer platform and a double-dispatch platform was underway. With most of the above-mentioned products launched for commercial dispatch, ZTE's position as the leader for SDR products was well established both at home and in the international market, contributing significantly to the competitiveness of its wireless products.

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

Large-scale deployment was being made at home and abroad in relation to the ZIMSTM multi-media network solution, which had won the approval of carrier customers. In connection with the IMS business, ZIMSTM enhanced CDMA functionality in multi-media communications with the provision and connection of China Telecom's first mobile video phone based on its existing CDMA network. ZIMSTM also enhanced IMS functionality in broadband multi-media services as it became the first player in the industry to provide fully-integrated 1080P HD video services, securing large-scale deployment for high-end carriers across the nation. ZIMSTM will continue to roll out new initiatives in network integration, business integration and enhancing users' experience with IMS, in a bid to address the needs of upcoming IMS commercial projects.

Research, development and production of integrated network management system

The development of the centralised network management software platform level has been completed and inter-connection among core networks, wireless networks (including GSM, CDMA, WCDMA and TD-SCDMA), transmission networks, data networks and power supply networks, as well as overall topology, alarm management, performance data collection, centralised management and auxiliary functions, such as report generation and event processing flow, can now be facilitated.

Industrialisation of xPON optical access

The domestic EPON market grew significantly during the first six months of 2009 as China Telecom and China Unicom continued with the construction of EPON networks in expanded scale. ZTE consolidated its position as the leading brand name for EPON as it continued to distinguished itself from competition in the domestic EPON market on the back of its solid research and development capabilities and comprehensive range of sophisticated products. As domestic carriers are overwhelmingly positive about the prospects of EPON, ZTE is expected to maintain its leadership in the domestic EPON

market. Following successful applications in Italy, Algeria, Holland, Brazil, Chile, Hong Kong, Rwanda, Saudi Arabia, Ethiopia and Russia, the Company's EPON and GPON products continued to penetrate high-end markets such as Europe, North America and the Asia Pacific leveraging its strengths in research and development and the range and sophistication of its products.

Industrialisation of next generation optical network transmission equipment

The project is currently under smooth progress. The ZXONE 5800 product and iCTN solution were unveiled at the GSMA Mobile World Congress held in Barcelona, while the iWDM solution, a new-generation wave-division transmission system featuring IP and smart-phone qualities as well as a high level of integration, commanded strong approval from the industry as it embarked on a nationwide touring exhibition under the theme of "An Optical Touch of Value" following a press launch in Beijing on 12 March. Elsewhere, our one-stop PTN solution made a high-profile debut at the Vienna assembly of the European PTN Summit Forum to give a major boost to ZTE's brand influence in Europe and the rest of the world, as evidenced by a leap in ZTE's ranking among optical network players according to a survey conducted by OVUM-RHK, a world-renowned consulting agency. As ZTE's industrialisation of next generation optical network transmission equipment continued to roll out, the Company's optical network products were sustaining rapid growth in the global market with steadily rising market shares.

Construction of ICT integrated business platform

The primary purpose of the ICT integrated business platform project is to apply IT and CT technological integration in the construction of an operable and manageable integrated business platform for international and domestic carriers for their provision to corporate customers of innovative integrated information services combining communications and information. Efforts in product research and technological innovations continued during the first half of 2009, with a primary focus on key markets. In the PRC, carriers had been increasingly focused the government sector and corporate customers following the launch of 3G, and a growing number of service platforms were being built in this connection. We assisted in the capacity expansion initiatives and new service trials of China Mobile's ADC service, China Telecom's EMA/EBG/UDB services and China Unicom's BAMP service etc., reinforcing our position in the business relating to carriers' transformation. Internationally, the national-grade data centre constructed on behalf of Ethiopian Telecommunications was duly delivered and put into operation for centralised network management, security control, monitoring and maintenance. Elsewhere, a contract had been signed with Sudan Telecom for the construction of a high-grade integrated service data centre and construction was smoothly underway. ICT integrated service solutions were provided as part of the e-government projects of Ethiopia, Kenya and Nigeria. Mobile office services underpinned by Push Mail were launched on a trial basis in cooperation with leading carriers of various countries.

Industrialisation of RFID systems integration

Thanks to the groundwork in technology and market reserves carried out in 2008, the Company reported breakthroughs in research and development as well as market applications for its RFID products during the first six months of 2009. Most hardware products were ready for conversion following elementary development efforts in 2008. Reserve products and technologies intended for market launch in 2010 and 2011 were basically ready, so of which had passed sample testing and verification. As for software

products, remote network management products and intermediary products were basically ready for application. Commercial application is in the pipeline as they are currently being tested and verified through applications in various integration projects.

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

5.8.2 Changes to projects committed

Applicable N/A

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

Applicable N/A

5.10 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

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

Applicable N/A

5.12 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

5.13 Business outlook and risk exposure for the second half of 2009

5.13.1 Business outlook for the second half of 2009

Looking to the latter half-year, the Group will seek to consolidate its businesses with the three leading PRC carriers on the back of its initial market shares in the domestic 3G sector. Meanwhile, the Group will seek to maintain its competitive edge in the international market and focus on large, populous countries as potential emerging markets. We will also strengthen cooperation with key strategic carriers in high-end markets such as Western Europe and North America to unfold further opportunities for cooperation with top-tier global carriers, in response to upgrades of communications technologies taking place in developed countries/regions and changes in the competitive scenario for global suppliers.

The Group will continue to implement the strategies of differentiation and cost leadership in the second half of the year, seeking to pursue stable development and deliver sound results by enhancing project-based operations and extending its advantages in cost and technology as well as its ability in one-stop project delivery.

5.13.2 *Business risk exposure*

(1) *Macro-economic risks*

The Group will be affected to a certain measure as the financial crisis continues to take its toll on the global economy.

(2) *Foreign exchange risks*

The foreign exchange risk of the Group arose mainly from exchange differences in the conversion of sales and purchases settled in currencies other than RMB (the functional currency of the Group) into RMB. The Group endeavoured to include terms relating to exchange risk aversion or sharing when entering into purchase and sales contracts and sought to enhance its internal management standards by actively managing its foreign exchange position and matching currencies and amounts received or incurred. Where matching was not practicable, derivative products such as foreign exchange forward contracts were employed to lock up exchange rates in varying proportions based on the maturity profile of the outstanding foreign exchange positions, so as to minimise the impact of exchange rate fluctuations on the principal business of the Group. With a strong emphasis on the research of exchange risk management policies, models and strategies, the Group has formulated and improved on a continued basis a foreign exchange risk management policy that takes into account the actual conditions of its operations and international standards in risk management and has gained considerable experience in the conduct of exchange risk management through the extensive use of exchange-related derivative products.

(3) *Interest rate risks*

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

(4) *Credit risks*

The Group will encounter differing customer groups in developing its business of providing one-stop communications solutions, and its business will be affected by the varied credit profiles of these customers.

(5) *Country risks*

Given recent developments in the global economy and financial market, the Group will continue to be exposed to political risks, sovereignty risks and transfer risks in countries where its projects are operated and a very high level of operational and risk control capabilities is required.

§6 MATERIAL MATTERS

6.1 Acquisition and Sale of Assets and Asset Reorganisation

6.1.1 Acquisition of Assets

Applicable N/A

6.1.2 Sale 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 for subsidiaries)

Guaranteed party	Date of incurrence (date of execution of relevant agreements)	Amounts guaranteed	Type of guarantee	Term	Whether fully performed	Whether provided for 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 RMB10,477,900)	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)						RMB81,176,200

Guarantees provided for subsidiaries

Total amount guaranteed for subsidiaries during the reporting period (Note 3)	US\$5 million
Total balance of amount guaranteed for subsidiaries at the end of the reporting period (B)	US\$66,405,500

Total amount guaranteed by the Company (including guarantees for subsidiaries)

Total guaranteed amount (A + B) (Note 2)	RMB514,356,200
Total guaranteed amount as a percentage of net assets of the Company attributable to the parent at the end of the reporting period	3.48%
Of which:	
Amounts of guarantees provided for shareholders, de facto controllers and their connected parties (C)	0
Amount of debt guarantee provided directly or indirectly for parties with a liquidity ratio exceeding 70% (D) (Note 4)	US\$16,405,500
Amount of total guarantee exceeding 50% of net assets (E)	0
Aggregated amount of the three guarantee amounts stated above (C + D + E)	US\$16,405,500
Statement on potential joint liability involved in outstanding guarantees	N/A

- Note 1:* Guarantee for 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. The two aforesaid guarantees taken together, 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:* At the Twenty-fourth Meeting and Twenty-fifth Meeting of the Fourth Session of the Board of Directors, it was respectively considered and approved: that the Company would provide a guarantee by way of the pledge of its 51% equity interests in subsidiary Closed Joint-Stock Company CJSC TK Mobile (“CJSC TK Mobile”) as a security against the bank loan extended to CJSC TK Mobile; and that the Company would provide a performance guarantee not exceeding US\$40 million for its wholly-owned subsidiary PT. ZTE Indonesia (“ZTE Indonesia”) and apply to the relevant bank for the issuance of a letter of performance guarantee providing guarantee with a maximum accumulated amount of US\$5 million. As the respective liquidity ratios of CJSC TK Mobile and ZTE Indonesia exceeded 70%, the said guarantees had been considered and approved by the First Extraordinary General Meeting of 2009 in accordance with requirements of relevant laws and regulations. As at the date of this report, the US\$5 million guarantee provided by the Company for ZTE Indonesia by way of standby letter of credit drawn against its bank credit facilities has come into effect. The US\$40 million performance guarantee provided for ZTE Indonesia and the guarantee by way of equity pledge provided as a security against the bank loan extended to CJSC TK Mobile have yet to come into effect, pending execution of relevant agreements.
- Note 4:* 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 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 5:* Guaranteed amounts denominated in Indian Rupee are converted at the exchange rate of 1 Indian Rupee to RMB0.14174 (being the book exchange rate adopted by the Company on 30 June 2009); guaranteed amounts denominated in US dollars are converted at the exchange rate of US\$1 to RMB6.83190 (being the book exchange rate adopted by the Company on 30 June 2009).
- Note 6:* All third party guarantees of the Company were submitted to the Board of Directors for its consideration and obtained the approval of two-thirds of the members of the Board of Directors. Such third party guarantees shall be tabled at the general meeting following approval by the Board of Directors, if the same is required in accordance with relevant provisions.

6.3 Non-recurrent creditor’s rights and debts with connected parties

Applicable N/A

6.4 Material Litigation or Arbitration

Applicable N/A

During the reporting period, the Group did not incur any material litigation or arbitration. Progress during the year of other litigation and arbitration proceedings occurring prior to the reporting period were as follows:

1. In December 2005, a supplier of the Company alleged that the Company had breached the supply contract and infringed its intellectual property and claimed indemnity for a total amount of USD36.45 million (equivalent to approximately RMB249.02 million) by instituting overseas arbitration.

In April 2009, the Company received a formal notification from the arbitration court which ruled that the case be terminated and the compensation claim of the supplier be refuted, that the supplier should reimburse the Company for the cost incurred by the arbitration of the case (including the fee paid to the arbitration court by the Company).

2. In November 2005, Beijing Success Communications and Electronic Engineering Co., Ltd. (“Beijing Success”) 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.

In December 2008, the Jiangsu Provincial High Court handed down its judgment for the first trial, which ruled that: (I) RMB35 million be refunded together with fund appropriation interests accrued on such amount to Beijing Success by Yangzhou Zhongxing; (II) Losses of Yangzhou Zhongxing amounting to over RMB11.66 million be indemnified by Beijing Success; (III) the Company be jointly responsible for the aforesaid liability of Yangzhou Zhongxing. The Company filed an appeal with the Supreme People’s Court after receiving the first trial judgment. The case was heard at the Supreme People’s Court in April 2009, but the court of second instance has yet to hand down any ruling or judgment. Currently the Company has not made any payments of compensation pursuant to the aforesaid judgment. Based on the legal opinion furnished by lawyers engaged by the Company, the Directors are of the opinion that the aforesaid litigation will not have any material adverse impact on the financial conditions of the Group for the current period.

Save as disclosed above, there was no substantial progress during the reporting period in respect of other litigation and arbitration proceedings disclosed in the 2008 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 *Temporary fund appropriations during the first half of 2009 and the progress of repayment*

Applicable N/A

6.5.4 *Performance of undertakings by the Company and its shareholders, Directors, Supervisors and senior management officers*

Applicable N/A

On 10 October 2008, Zhongxingxin, the controlling shareholder of the Company, acquired additional A shares in the Company through the trading system of Shenzhen Stock Exchange. Zhongxingxin has been in compliance with its undertaking that it would not sell down its holdings of shares in the Company during the period of additional acquisition and the statutory period.

6.5.5 *Progress of the Phase I Share Incentive Scheme during the period*

1. At the Twenty-sixth Meeting of the Fourth Session of the Board of Directors held on 6 July 2009, the “Resolution of the Company regarding the Matters relating to the Implementation of the Phase I Share Incentive Scheme” was considered and passed, confirming the adjustment of the number of Subject Share quotas under the Phase I Share Incentive Scheme of the Company as a result of the enlarged share capital of the Company and the lapse of Subject Share quotas granted to certain employees who have subsequently departed or waived on the Phase I Share Incentive Scheme. The total number of Scheme Participants for the grant was 4,022 after adjustments. Registration with China Securities Depository and Clearing Company Limited, Shenzhen Branch had been completed and the total share capital of the Company had increased by 85,006,813 shares.
2. According to the Phase I Share Incentive Scheme of the Company, Subject Shares under the First Award shall be subject to a lock-up period of 2 years commencing from 13 March 2007, the date on which implementation is approved at the First Extraordinary General Meeting of the Company for 2007. As at 12 March 2009, the lock-up period for the Subject Shares under the First Award had expired and the unlocking period had commenced. As considered and approved at the Twenty-sixth Meeting of the Fourth Session of the Board of Directors of the Company, the first unlocking conditions for the Subject Shares under the First Award were deemed to have been satisfied, 3,265 Scheme Participants were confirmed to have fulfilled the first unlocking conditions for the Subject Shares under the Phase I Share Incentive Scheme and it was approved that the Company may proceed with the first unlocking of the Subject Shares under the First Award of the Phase I Share Incentive Scheme. The total number of Subject Shares under the first unlocking was 15,269,290 A shares, among which 709,582 Subject Shares granted to 19 Directors and senior management officers of the Company currently in office and one former senior management officer who had resigned with effect from 19 March 2009 remained under lock-up and subject to sale restriction under the relevant regulations of the Company Law and the Guidelines for the Administration of Company Shareholdings by Directors, Supervisors and Senior Management Officers of Companies Listed on Shenzhen Stock Exchange and Changes in Shareholdings (《深圳證券交易所上市公司董

事、監事和高級管理人員所持本公司股份及其變動管理業務指引》)。Therefore a total of 14,559,708 Subject Shares were released from sale restrictions, which was completed on 22 July 2009.

For details, please refer to the “Announcement of the Resolutions passed at the Twenty-sixth Meeting of the Fourth Session of the Board of Directors of the Company” and the “Announcement of the Completion of Release of Lock-up for Subject Shares under the First Unlocking of the Phase I Share Incentive Scheme” published by the Company on 7 July 2009 and 23 July 2009, respectively.

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 Note III.21 to financial statements prepared under PRC ASBEs.

6.5.6 *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. Mi Zhengkun, Mr. Li Jin, Ms. Qu Xiaohui, Mr. Wei Wei and Mr. Chen Naiwei, 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 2009 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 are not aware of any breach of such notices.

6.6 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 2009	2008 annual results presentation	Analysts and investors	2008 annual report	Published announcements and regular reports
	Hong Kong	March 2009	Teleconference	Analysts and investors	2008 annual report	Published announcements and regular reports
	Shenzhen	March 2009	Analysts' meeting	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
External meetings	Shanghai	January 2009	UBS Greater China Forum	Customers of UBS	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	March 2009	Credit Suisse Asia Investment Forum	Customers of Credit Suisse	Day-to-day operations of the Company	Published announcements and regular reports
	Xiamen	May 2009	SYWG Investors Interviews	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	June 2009	China Merchants Securities Interim Strategy Meeting	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	June 2009	Ping An Securities Interim Strategy Meeting	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
Company visits by analysts	Company	First half of 2009	Verbal	Overseas investors Merrill Lynch Securities, Citibank, Blackship Capital Management, Greenwoods Asset Management, Daiwa Securities, Sumitomo Mitsui, Oppenheimer Fund, Henderson Global, Matthews International, BOCI, First Shanghai, Deutsche Bank, CLSA, Collins Stewart, KGI, BoCom-Schroders, Atlantis Investment, JP Morgan Asset Management, Mirae Asset Securities, Joho Capital, Samsung Investment, Kim Eng Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Company	First half of 2009	Verbal	Domestic investors CICC, China Universal Asset Management, CCBI, China Merchants Securities, Donghai Securities, Guotai Junan, CITIC Securities, Changsheng Fund, Dacheng Fund, China AMC Fund, Yinhua Fund, Hong Yuan Securities, South China Securities, Great Wall Fund, China Merchants Fund, Minsheng Royal Fund, Harvest Fund, SYWG, Changjiang Securities	Day-to-day operations of the Company	Published announcements and regular reports

6.7 Implementation of the Code on Corporate Governance Practices and other matters

6.7.1 *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.

6.7.2 *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.

6.7.3 *The Audit Committee*

The Audit Committee of the Company has discussed with the management regarding the accounting standards and practices adopted by the Group, and has also discussed and reviewed the report, including the financial statements of the Group for the six months ended 30 June 2009.

§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

Company Name	Change	Reason
Shenzhen Hongde Battery Company, Limited	Reduction	Equity transfer
南京中興力維軟件有限公司	Addition	New incorporation
南京中興特種系統有限責任公司	Addition	New incorporation
南京中興新軟件有限責任公司	Addition	New incorporation
深圳中興網信科技有限公司	Addition	New incorporation
中興通訊(杭州)有限責任公司	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
19 August 2009

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

**APPENDIX I: FINANCIAL STATEMENTS PREPARED UNDER PRC ASBES
(UNAUDITED)**

Consolidated Balance Sheet

*(Prepared under PRC ASBES)
Currency: RMB'000*

		30 June 2009 (unaudited)	31 December 2008 (audited)
	<i>Note VI</i>		
Assets			
Current assets:			
Cash on hand and at bank	1	12,428,251	11,480,406
Bills receivable	2	4,343,166	1,578,473
Trade receivables	3	13,324,235	9,972,495
Factored trade receivables	3	1,443,570	1,658,941
Prepayments	4	306,436	355,887
Other receivables	5	1,063,995	757,847
Inventories	6	11,394,005	8,978,036
Amount due from customers for contract work	7	<u>8,871,805</u>	<u>7,894,010</u>
Total current assets		<u>53,175,463</u>	<u>42,676,095</u>
Non-current assets:			
Available-for-sale financial assets	8	252,310	251,148
Long-term trade receivables	9	556,645	612,008
Factored long-term trade receivables	9	1,027,550	753,568
Long-term equity investments	10	185,857	168,433
Fixed assets	11	4,336,639	4,103,076
Construction in progress	12	895,406	817,086
Intangible assets	13	541,896	589,084
Development costs	14	675,429	476,020
Deferred tax assets	15	412,287	400,265
Long-term deferred assets		<u>14,723</u>	<u>19,138</u>
Total non-current assets		<u>8,898,742</u>	<u>8,189,826</u>
TOTAL ASSETS		<u>62,074,205</u>	<u>50,865,921</u>

Legal representative of the Company:
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Finance Division:
Shi Chunmao

Consolidated Balance Sheet (Cont'd)

(Prepared under PRC ASBEs)

Currency: RMB'000

		30 June 2009 (unaudited)	31 December 2008 (audited)
	<i>Note VI</i>		
Liabilities and shareholders' equity			
Current liabilities:			
Short-term loans	17	5,184,513	3,882,479
Bank advances on factored trade receivables		1,443,570	1,658,941
Derivative financial liabilities		—	12,560
Bills payable	19	9,519,953	6,318,059
Trade payables	20	12,794,723	9,495,946
Amount due to customers for contract work	7	3,582,481	2,965,582
Advances from customers	21	1,537,490	1,392,862
Salary and welfare payables	22	1,363,352	1,443,017
Taxes payable	23	(432,653)	(765,040)
Dividend payable	24	36,415	22,750
Other payables	26	1,555,405	1,553,011
Deferred income		52,881	64,281
Provision	25	177,545	170,382
Non-current loans due within one year	27	<u>1,576,624</u>	<u>1,782,006</u>
Total current liabilities		<u>38,392,299</u>	<u>29,996,836</u>
Non-current liabilities:			
Long-term loans	28	3,259,435	1,292,547
Bank advances on factored long-term trade receivables		1,027,550	753,568
Bonds payable	29	3,557,463	3,514,652
Specific payables	31	80,000	80,000
Deferred tax liabilities	30	1,461	5,019
Other non-current liabilities	18	<u>39,752</u>	<u>39,752</u>
Total non-current liabilities		<u>7,965,661</u>	<u>5,685,538</u>
Total liabilities		<u>46,357,960</u>	<u>35,682,374</u>

Consolidated Balance Sheet (Cont'd)

(Prepared under PRC ASBEs)

Currency: RMB'000

		30 June 2009 (unaudited)	31 December 2008 (audited)
Shareholders' equity:			
Share capital	32	1,746,329	1,343,330
Capital reserves	33	6,073,053	6,298,172
Surplus reserves	34	1,431,827	1,431,820
Retained profits	35	5,804,608	5,021,369
Proposed final dividend		—	402,999
Foreign currency translation differences		(294,517)	(248,146)
Total equity attributable to equity holders of the parent		14,761,300	14,249,544
Minority interests	36	<u>954,945</u>	<u>934,003</u>
Total shareholders' equity		<u>15,716,245</u>	<u>15,183,547</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>62,074,205</u>	<u>50,865,921</u>

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)

Currency: RMB'000

	<i>Note VI</i>	Six months ended 30 June 2009 (unaudited)	Six months ended 30 June 2008 (unaudited)
I. Operating revenue	37	27,707,646	19,728,984
Less: Operating costs	37	18,824,349	13,102,213
Taxes and surcharges	38	300,045	149,116
Selling and distribution costs		3,177,139	2,616,839
Administrative expenses		1,367,727	1,130,733
Research and development costs		2,606,448	1,647,898
Finance expenses	39	367,352	401,878
Impairment losses	40	445,929	199,458
Add: Gains/(losses) from changes in fair values	41	12,648	(69,633)
Investment income	42	2,350	51,706
Including: Share of profits of Jointly controlled entities and associates	42	10,460	9,874
II. Operating profit		633,655	462,922
Add: Non-operating income	43	620,153	435,544
Less: Non-operating expenses	43	42,612	29,824
Including: Loss and gains on disposal of non-current assets		6,598	3,459
III. Total profit		1,211,196	868,642
Less: Income tax	44	342,457	199,216
IV. Net profit		868,739	669,426
Attributable to:			
Equity holders of the parent		783,367	557,386
Minority interests		85,372	112,040
V. Earnings per share			
(1) Basic earnings per share	45	RMB0.45	RMB0.32
(2) Diluted earnings per share	45	RMB0.44	RMB0.31
VI. Other comprehensive income		(46,371)	(20,742)
VII. Comprehensive income		822,368	648,684
Attributable to:			
Equity holders of the parent		736,996	536,644
Minority interests		85,372	112,040

Legal representative of the Company:
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Finance Division:
Shi Chunmao

* Earnings per share for the same period of 2008 has been restated to reflect the change in the Company's total issued share capital from 1,343,330,310 shares to 1,746,329,402 shares as a result of the implementation of the profit distribution for 2008.

Consolidated Statement of Changes in Equity

(Prepared under PRC ASBEs)

Currency: RMB'000

		Six months ended 30 June 2009 (unaudited)								
		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 the current period	1,343,330	6,298,172	1,431,820	5,021,369	402,999	(248,146)	14,249,544	934,003	15,183,547
II.	Changes in current period									
(1)	Net profit	—	—	—	783,367	—	—	783,367	85,372	868,739
(2)	Gains/(losses) recognised directly in equity									
1.	Net gains/(losses) from change in fair values of available-for-sale financial assets	—	—	—	—	—	—	—	—	—
2.	Effect of changes of other equity holders' interest in invested entities by equity method	—	—	—	—	—	—	—	—	—
3.	Related tax effect of items recognised in equity	—	—	—	—	—	—	—	—	—
4.	Others	—	—	—	—	—	(46,371)	(46,371)	(19,439)	(65,810)
	Sub-total of (1) and (2)	—	—	—	783,367	—	(46,371)	736,996	65,933	802,929
(3)	Capital injection from shareholders and reduction in capital									
1.	Capital injection from shareholders	—	—	—	—	—	—	—	1,200	1,200
2.	Equity settled share expense	—	177,887	—	—	—	—	177,887	—	177,887
3.	Issue of bonds cum warrants	—	—	—	—	—	—	—	—	—
4.	Others	—	(7)	(121)	—	—	—	(128)	(8,918)	(9,046)
(4)	Profit appropriation									
1.	Appropriation to surplus reserves	—	—	128	(128)	—	—	—	—	—
2.	Distribution to shareholders	—	—	—	—	(402,999)	—	(402,999)	(37,273)	(440,272)
3.	Proposal final dividend	—	—	—	—	—	—	—	—	—
4.	Others	—	—	—	—	—	—	—	—	—
(5)	Transfer of shareholders' equity									
1.	Transfer of capital reserve to share capital	402,999	(402,999)	—	—	—	—	—	—	—
2.	Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—	—
3.	Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—
4.	Others	—	—	—	—	—	—	—	—	—
III.	Closing balance of the current period	<u>1,746,329</u>	<u>6,073,053</u>	<u>1,431,827</u>	<u>5,804,608</u>	<u>—</u>	<u>(294,517)</u>	<u>14,761,300</u>	<u>954,945</u>	<u>15,716,245</u>

Legal representative of the Company:
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Finance Division:
Shi Chunmao

Consolidated Statement of Changes in Equity (Cont'd)

(Prepared under PRC ASBEs)

Currency: RMB'000

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

Legal representative of the Company:
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Finance Division:
Shi Chunmao

Consolidated Cash Flow Statement

(Prepared under PRC ASBEs)

Currency: RMB'000

	Six months ended 30 June 2009 (unaudited)	Six months ended 30 June 2008 (unaudited)
	<i>Note VI</i>	
I. Cash flows from operating activities		
Cash received from sale of goods or rendering services	22,127,889	16,396,543
Cash received from taxes returned	1,695,724	1,386,756
Cash received relating to other operating activities	<u>133,835</u>	<u>88,165</u>
Sub-total of cash inflow	<u>23,957,448</u>	<u>17,871,464</u>
Cash paid for goods and services	15,814,789	14,324,030
Cash paid to and on behalf of employees	4,243,320	3,282,379
Payments of taxes and levies	1,494,958	909,679
Cash paid relating to other operating activities	<u>3,579,584</u>	<u>2,506,581</u>
Sub-total of cash outflow	<u>25,132,651</u>	<u>21,022,669</u>
Net cash flows from operating activities	<u>(1,175,203)</u>	<u>(3,151,205)</u>
II. Cash flows from investing activities		
Cash received from sale of investments	2,808	—
Cash received from gains of investment	8,229	66,418
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	<u>488</u>	<u>3,930</u>
Sub-total of cash inflow	<u>11,525</u>	<u>70,348</u>
Cash paid to acquire fixed assets, intangible assets and other long-term assets	390,832	687,424
Cash paid for investment	<u>16,976</u>	<u>5,426</u>
Sub-total of cash outflow	<u>407,808</u>	<u>692,850</u>
Net cash flows from investing activities	<u>(396,283)</u>	<u>(622,502)</u>

Consolidated Cash Flow Statement (Cont'd)

(Prepared under PRC ASBEs)

Currency: RMB'000

	Six months ended 30 June 2009 (unaudited)	Six months ended 30 June 2008 (unaudited)
	<i>Note VI</i>	
III. Cash flows from financing activities		
Cash received from investment	33,956	—
Cash received from borrowings	7,638,557	4,313,005
Cash received from the issue of Bonds cum Warrants	—	3,961,443
Sub-total of cash inflow	<u>7,672,513</u>	<u>8,274,448</u>
Cash paid for debt repayments	4,575,017	3,007,235
Cash payments for distribution of dividends and interest expenses	743,149	277,157
Sub-total of cash outflow	<u>5,318,166</u>	<u>3,284,392</u>
Net cash flow from financing activities	<u>2,354,347</u>	<u>4,990,056</u>
IV. Effect of changes in foreign exchange rate on cash	<u>(50,178)</u>	<u>52,783</u>
V. Net increase in cash and cash equivalents	732,683	1,269,132
Add: cash and cash equivalents at beginning of period	<u>11,344,160</u>	<u>6,309,749</u>
VI. Closing balance of cash and cash equivalents	<u><u>12,076,843</u></u>	<u><u>7,578,881</u></u>

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.

Balance Sheet of the Company

(Prepared under PRC ASBEs)

Currency: RMB'000

		30 June 2009 (unaudited)	31 December 2008 (audited)
Assets			
Current assets:			
Cash on hand and at bank		7,459,671	8,331,272
Bills receivable		4,228,373	1,513,358
Trade receivables	3	16,536,422	13,186,642
Factored trade receivables	3	1,344,597	1,783,941
Prepayments		13,245	18,546
Dividend receivable		29,620	23,848
Other receivables	5	1,855,195	1,442,177
Inventories		6,126,063	5,211,017
Amount due from customers for contract work		<u>8,431,047</u>	<u>8,038,449</u>
Total current assets		<u>46,024,233</u>	<u>39,549,250</u>
Non-current assets:			
Available-for-sale financial assets	8	243,198	243,198
Long-term trade receivables	9	1,380,760	1,214,038
Factored long-term trade receivables		1,152,550	753,568
Long-term equity investments	10	1,878,552	1,747,760
Fixed assets		2,838,141	2,608,957
Construction in progress		578,863	402,290
Intangible assets		446,436	479,947
Development costs		149,134	137,915
Deferred tax assets		<u>270,533</u>	<u>231,182</u>
Total non-current assets		<u>8,938,167</u>	<u>7,818,855</u>
TOTAL ASSETS		<u>54,962,400</u>	<u>47,368,105</u>

Legal representative of the Company:
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Finance Division:
Shi Chunmao

Balance Sheet of the Company (Cont'd)*(Prepared under PRC ASBEs)**Currency: RMB'000*

	30 June 2009	31 December 2008
<i>Note VI</i>	(unaudited)	(audited)
Liabilities and shareholders' equity		
Current liabilities:		
Short-term loans	3,244,613	1,273,828
Bank advances on factored trade receivables	1,443,570	1,783,941
Derivative financial liabilities	—	12,560
Bills payable	9,924,334	6,901,568
Trade payables	14,058,421	12,582,726
Amount due to customers for contract work	2,405,138	2,408,455
Advances from customers	919,210	1,640,192
Salary and welfare payables	730,941	596,515
Taxes payable	(528,888)	(993,777)
Dividend payable	75	10
Other payables	3,783,184	4,188,152
Deferred income	27,060	31,263
Provision	99,154	100,724
Non-current loans due within one year	478,233	673,384
Total current liabilities	36,585,045	31,199,541
Non-current liabilities:		
Long-term loans	2,923,104	1,005,039
Bank advances on factored long-term trade receivables	1,152,550	753,568
Bonds payable	3,557,463	3,514,652
Specific payables	80,000	80,000
Deferred tax liabilities	7,242	7,242
Other non-current liabilities	39,752	39,752
Total non-current liabilities	7,760,111	5,400,253
Total liabilities	44,345,156	36,599,794

Balance Sheet of the Company (Cont'd)*(Prepared under PRC ASBEs)**Currency: RMB'000*

	30 June 2009 (unaudited)	31 December 2008 (audited)
	<i>Note VI</i>	
Shareholders' equity:		
Share capital	1,746,329	1,343,330
Capital reserves	6,046,018	6,271,137
Surplus reserves	769,482	769,603
Retained profits	2,067,479	1,992,735
Proposed final dividend	—	402,999
Foreign currency translation differences	<u>(12,064)</u>	<u>(11,493)</u>
Total shareholders' equity	<u>10,617,244</u>	<u>10,768,311</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>54,962,400</u>	<u>47,368,105</u>

Legal representative of the Company:
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Finance Division:
Shi Chunmao

Income Statement of the Company

(Prepared under PRC ASBEs)

Currency: RMB'000

	<i>Note VI</i>	Six months ended 30 June 2009 (unaudited)	Six months ended 30 June 2008 (unaudited)
I. Operating revenue	37	25,877,672	17,288,907
Less: Operating costs	37	21,049,253	14,795,021
Taxes and surcharges		56,821	21,786
Selling and distribution costs		2,532,147	1,928,474
Administrative expenses		813,699	618,361
Research and development costs		655,795	352,214
Finance expenses		393,012	565,193
Impairment losses		307,927	109,702
Add: Gains/(losses) from changes in fair values		12,559	(77,508)
Investment income	42	50,583	1,224,353
Including: Share of profits of Jointly controlled entities and associates		<u>6,952</u>	<u>2,652</u>
II. Operating profit		132,160	45,001
Add: Non-operating income		71,882	42,135
Less: Non-operating expenses		10,242	19,915
Including: Loss and gains on disposal of non-current assets		<u>—</u>	<u>2,152</u>
III. Total profit		193,800	67,221
Less: Income tax		<u>119,056</u>	<u>39,845</u>
IV. Net profit		<u>74,744</u>	<u>27,376</u>
Attributable to:			
Equity holders of the parent		<u>74,744</u>	<u>27,376</u>
Minority interests		<u>—</u>	<u>—</u>
V. Earnings per share			
(1) Basic earnings per share		RMB0.04	RMB0.02
(2) Diluted earnings per share		RMB0.04	RMB0.01
VI. Other comprehensive income		(571)	(4,462)
VII. Comprehensive income		74,173	22,914

Legal representative of the Company:
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Finance Division:
Shi Chunmao

* Earnings per share for the same period of 2008 has been restated to reflect the change in the Company's total issued share capital from 1,343,330,310 shares to 1,746,329,402 shares as a result of the implementation of the profit distribution for 2008.

Statement of Changes in Equity of the Company

(Prepared under PRC ASBEs)

Currency: RMB'000

Six months ended 30 June 2009 (unaudited)

	Share capital	Capital reserves	Surplus reserves	Retained profits	Proposed final dividend	Foreign currency translation differences	Total shareholders' equity
I. Opening balance of the current period	1,343,330	6,271,137	769,603	1,992,735	402,999	(11,493)	10,768,311
II. Changes in current period							
(1) Net profit	—	—	—	74,744	—	—	74,744
(2) Gains/(losses) recognised directly in equity							
1. Net gains/(losses) from change in fair values of available-for-sale financial assets	—	—	—	—	—	—	—
2. Effect of changes of other equity holders' interest in invested entities by equity method	—	—	—	—	—	—	—
3. Related tax effect of items recognised in equity	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	(571)	(571)
Sub-total of (1) and (2)	—	—	—	74,744	—	(571)	74,173
(3) Capital injection from shareholders and reduction in capital							
1. Capital injection from shareholders	—	—	—	—	—	—	—
2. Equity settled share expense	—	177,887	—	—	—	—	177,887
3. Issue of bonds cum warrants	—	—	—	—	—	—	—
4. Others	—	(7)	(121)	—	—	—	(128)
(4) Profit appropriation							
1. Appropriation to surplus reserves	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	(402,999)	—	(402,999)
3. Proposal final dividend	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
(5) Transfer of shareholders' equity							
1. Transfer of capital reserve to share capital	402,999	(402,999)	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
III. Closing balance of the current period	<u>1,746,329</u>	<u>6,046,018</u>	<u>769,482</u>	<u>2,067,479</u>	<u>—</u>	<u>(12,064)</u>	<u>10,617,244</u>

Legal representative of the Company:
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Finance Division:
Shi Chunmao

Statement of Changes in Equity of the Company (Cont'd)

(Prepared under PRC ASBEs)

Currency: RMB'000

Six months ended 30 June 2008 (unaudited)

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

Legal representative of the Company:
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Finance Division:
Shi Chunmao

Cash Flow Statement of the Company

(Prepared under PRC ASBEs)

Currency: RMB'000

	Six months ended 30 June 2009 (unaudited)	Six months ended 30 June 2008 (unaudited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering services	20,925,787	14,435,600
Cash received from taxes returned	1,142,593	956,566
Cash received relating to other operating activities	<u>93,915</u>	<u>60,571</u>
Sub-total of cash inflow	<u>22,162,295</u>	<u>15,452,737</u>
Cash paid for goods and services	21,010,570	15,694,416
Cash paid to and on behalf of employees	1,110,119	997,689
Payments of taxes and levies	95,665	94,069
Cash paid relating to other operating activities	3,424,254	1,492,251
Sub-total of cash outflow	<u>25,640,608</u>	<u>18,278,425</u>
Net cash flows from operating activities	<u>(3,478,313)</u>	<u>(2,825,688)</u>
II. Cash flows from investing activities		
Cash received from sale of investments	—	—
Cash received from gains of investment	48,067	50,641
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	<u>—</u>	<u>—</u>
Sub-total of cash inflow	<u>48,067</u>	<u>50,641</u>
Cash paid to acquire fixed assets, intangible assets and other long-term assets	311,199	616,417
Cash paid for investment	<u>134,176</u>	<u>—</u>
Sub-total of cash outflow	<u>445,375</u>	<u>616,417</u>
Net cash flow from investing activities	<u>(397,308)</u>	<u>(565,776)</u>

Cash Flow Statement of the Company (Cont'd)

(Prepared under PRC ASBEs)

Currency: RMB'000

	Six months ended 30 June 2009 (unaudited)	Six months ended 30 June 2008 (unaudited)
III. Cash flows from financing activities		
Cash received from investment	33,456	—
Cash received from borrowings	5,398,483	3,348,161
Cash received from the issue of Bonds cum Warrants	<u>—</u>	<u>3,961,443</u>
Sub-total of cash inflow	<u>5,431,939</u>	<u>7,309,604</u>
Cash paid for debt repayments	1,704,784	2,833,018
Cash payments for distribution of dividends and interest expenses	<u>685,089</u>	<u>222,170</u>
Sub-total of cash outflow	<u>2,389,873</u>	<u>3,055,188</u>
Net cash flow from financing activities	<u>3,042,066</u>	<u>4,254,416</u>
IV. Effect of changes in foreign exchange rate on cash	<u>(63,458)</u>	<u>87,918</u>
V. Net increase in cash and cash equivalents	(897,013)	950,870
Add: cash and cash equivalents at beginning of period	<u>8,323,750</u>	<u>4,604,365</u>
VI. Closing balance of cash and cash equivalents	<u><u>7,426,737</u></u>	<u><u>5,555,235</u></u>
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.

APPENDIX II: FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH HKFRSS (UNAUDITED)

Consolidated Income Statement

*(Prepared under HKFRSSs)
Six months ended 30 June 2009*

	<i>Note</i>	Six months ended 30 June 2009 (unaudited) RMB'000	Six months ended 30 June 2008 (unaudited) RMB'000
REVENUE	4	27,707,646	19,728,984
Cost of sales		<u>(19,265,232)</u>	<u>(13,319,284)</u>
Gross profit		8,442,414	6,409,700
Other income and gains	4	793,405	509,624
Research and development costs		(2,606,448)	(1,647,898)
Selling and distribution costs		(3,230,212)	(2,666,047)
Administrative expenses		(1,430,567)	(1,091,232)
Other expenses		(375,704)	(333,788)
Finance costs	6	(392,152)	(321,591)
Share of profits and losses of: Associates		<u>10,460</u>	<u>9,874</u>
PROFIT BEFORE TAX	5	1,211,196	868,642
Tax	7	<u>(342,457)</u>	<u>(199,216)</u>
PROFIT FOR THE YEAR		<u>868,739</u>	<u>669,426</u>
Attributable to:			
Equity holders of the parent		783,367	557,386
Minority interests		<u>85,372</u>	<u>112,040</u>
		<u>868,739</u>	<u>669,426</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	9	<u>RMB0.45</u>	<u>RMB0.32</u>
Diluted		<u>RMB0.44</u>	<u>RMB0.31</u>
Other comprehensive income		<u>(46,371)</u>	<u>(20,742)</u>
Comprehensive income		<u>822,368</u>	<u>648,684</u>
Attributable to:			
Equity holders of the parent		736,996	536,644
Minority interests		<u>85,372</u>	<u>112,040</u>
		<u>822,368</u>	<u>648,684</u>

Consolidated Balance Sheet

(Prepared under HKFRSs)

30 June 2009

		30 June 2009 (unaudited) RMB'000	31 December 2008 (audited) RMB'000
	<i>Note</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		5,200,914	4,892,515
Prepaid land lease payments		480,119	508,389
Intangible assets		772,528	592,974
Investments in jointly-controlled entities		2,255	2,255
Investments in associates		183,602	166,178
Available-for-sale investments		252,310	251,148
Long-term trade receivables	11	556,645	612,008
Factored long-term trade receivables		1,027,550	753,568
Deferred tax assets		<u>412,287</u>	<u>400,265</u>
Total non-current assets		<u>8,888,210</u>	<u>8,179,300</u>
CURRENT ASSETS			
Prepaid land lease payments		10,531	10,527
Inventories		11,394,005	8,978,036
Amount due from customers for contract works	10	8,871,805	7,894,010
Trade and bills receivables	11	17,667,401	11,550,968
Factored trade receivables		1,443,570	1,658,941
Prepayments, deposits and other receivables		2,603,792	2,476,642
Pledged bank deposits		351,408	136,246
Cash and cash equivalents		<u>12,076,843</u>	<u>11,344,160</u>
Total current assets		<u>54,419,355</u>	<u>44,049,530</u>
CURRENT LIABILITIES			
Trade and bills payables	12	22,314,676	15,814,005
Amount due to customers for contract works	10	3,582,481	2,965,582
Other payables and accruals		4,706,036	4,661,469
Interest-bearing bank borrowings		6,761,137	5,664,485
Bank advances on factored trade receivables		1,443,570	1,658,941
Tax payable		781,344	559,953
Derivative financial instruments		—	12,560
Dividends payable		<u>36,415</u>	<u>22,750</u>
Total current liabilities		<u>39,625,659</u>	<u>31,359,745</u>
NET CURRENT ASSETS		<u>14,793,696</u>	<u>12,689,785</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>23,681,906</u>	<u>20,869,085</u>

Consolidated Balance Sheet (Cont'd)

(Prepared under HKFRSs)

30 June 2009

	30 June 2009 (unaudited) RMB'000	31 December 2008 (audited) RMB'000
	<i>Note</i>	
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>23,681,906</u>	<u>20,869,085</u>
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	3,259,435	1,292,547
Bank advances on factored long-term trade receivables	1,027,550	753,568
Bonds cum warrants	3,557,463	3,514,652
Financial guarantee contract	3,689	3,689
Provision for retirement benefits	36,063	36,063
Other long-term payables	80,000	80,000
Deferred tax liabilities	<u>1,461</u>	<u>5,019</u>
Total non-current liabilities	<u>7,965,661</u>	<u>5,685,538</u>
Net assets	<u>15,716,245</u>	<u>15,183,547</u>
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	1,746,329	1,343,330
Reserves	13,014,971	12,503,215
Proposed final dividend	<u>—</u>	<u>402,999</u>
	14,761,300	14,249,544
Minority interests	<u>954,945</u>	<u>934,003</u>
Total equity	<u>15,716,245</u>	<u>15,183,547</u>
Hou Weigui <i>Director</i>	Yin Yimin <i>Director</i>	

Consolidated Cash Flow Statement

(Prepared under HKFRSs)
Six months ended 30 June 2009

	Six months ended 30 June 2009 (unaudited) RMB'000	Six months ended 30 June 2008 (unaudited) RMB'000
Items		
Net cash outflow from operating activities	(1,792,327)	(3,495,502)
Net cash outflow from investing activities	(522,307)	(555,363)
Net cash inflow from financing activities	<u>3,097,495</u>	<u>5,267,214</u>
Net increase in cash and cash equivalents	782,861	1,216,349
Cash and cash equivalents at beginning of period	11,344,160	6,309,749
Effect of foreign exchange rate changes, net	<u>(50,178)</u>	<u>52,783</u>
Cash and cash equivalents at end of period	<u>12,076,843</u>	<u>7,578,881</u>
Analysis of balance of cash and cash equivalents		
Cash and bank balances	11,435,238	6,621,992
Unsecured time deposits with a maturity of less than three months	<u>641,605</u>	<u>956,889</u>
	<u>12,076,843</u>	<u>7,578,881</u>

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Group has adopted the following new interpretations and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time in preparation the interim financial statements. Save for certain cases which give rise to new and revised accounting policies and additional disclosures, the adoption of these new interpretations and amendments to HKFRSs has had no significant effect on these financial statements.

HKFRS 1 (Amendments) and HKAS 27 (Amendments)	First-time adoption of HKFRSs and HKASs and Consolidated and separate financial statements — cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendments)	Share-based payment — vesting conditions and cancellations
HKFRS 7 (Amendments)	Financial instruments: disclosures
HKFRS 8	Operating segments
HKAS 1 (Revised)	Presentation of financial statements
HKAS 23 (Revised)	Borrowing costs
HKAS 32 (Amendments) and HKAS 1 (Amendments)	Financial instruments and Presentation of financial statements — puttable financial instruments and obligation arising on liquidation
HK(IFRIC) — Int 13	Customer loyalty programmes
HK(IFRIC) — Int 15	Agreements for the construction of real estate
HK(IFRIC) — Int 16	Hedges of a net investment in a foreign operation

The main impacts of adopting the above new and revised HKFRS are as follows:

- (a) HKAS 27 (Amendments) requires all dividends from subsidiaries, associates and jointly-controlled entities to be recognised in the income statements in the separate financial statements. HKFRS 1 (Amendments) allows a first-time adoption of HKFRSs to measure its investments in subsidiaries, associates and jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The amendments do not affect consolidated financial statements. As this is not the Group’s first-time adoption of the HKFRSs, HKFRS 1 (Amendments) is not applicable to the Group.
- (b) HKFRS 2 (Amendments) clarifies that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. In the case that the award of a share option does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the amendments are unlikely to have any significant implications on its accounting for share-based payments.
- (c) HKFRS 7 (Amendments) requires additional disclosure about fair value measurement and liquidity risk. It states that each class of financial instruments must comply with the fair value disclosure requirements in making separate disclosures, adds disclosures in respect of any changes and reasons for those changes to inputs of fair value measurements, recognises the three-level hierarchy for fair value measurements, and increases disclosure requirements in respect of maturity analysis of derivative financial liabilities. The amendments reflect adjustments to disclosure requirements and do not have any financial impact on the Group.
- (d) HKFRS 8 specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group’s major customers.

- (e) HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this revised standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements.
- (f) HKAS 23 (Revised) requires capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy is consistent with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.
- (g) HKAS 32 (Amendments) provides a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. HKAS 1 (Amendments) requires disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments are unlikely to have any financial impact on the Group.
- (h) HK(IFRIC) — Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no applicable customer loyalty award credits, the interpretation is not applicable to the Group and therefore is unlikely to have any financial impact on the Group.
- (i) HK(IFRIC) — Int 15 replaces HK Interpretation 3 Revenue — Pre-completion Contracts for the Sale of Development Properties. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 Construction Contracts or an agreement for the sale of goods or services in accordance with HKAS 18 Revenue. As the Group currently is not involved in any construction of real estate, the interpretation is unlikely to have any financial impact on the Group.
- (j) HK(IFRIC) — Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment, the interpretation is unlikely to have any financial impact on the Group.

2. SEGMENT INFORMATION

An analysis of the Group's revenue and profit by business segment for the six months ended 30 June 2009 and 2008 is set out in the following table:

	Networks		Terminals		Telecommunications software systems, services and other products		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2009	2008	2009	2008	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:								
Contract revenue from external customers	18,796,810	12,853,251	—	—	1,848,806	1,360,829	20,645,616	14,214,080
Sale of goods and services	—	—	5,575,904	4,294,615	1,486,126	1,220,289	7,062,030	5,514,904
Total	18,796,810	12,853,251	5,575,904	4,294,615	3,334,932	2,581,118	27,707,646	19,728,984
Segment results	3,735,684	2,657,657	905,732	648,304	570,786	437,692	5,212,202	3,743,653
Interest and unallocated gains							793,405	509,624
Unallocated expenses							(4,412,719)	(3,072,918)
Finance costs							(392,152)	(321,591)
Share of profits of:								
Associates							10,460	9,874
Profit before tax							1,211,196	868,642
Tax							(342,457)	(199,216)
Profit for the period							868,739	669,426
Assets and liabilities								
Segment assets	26,858,754	22,811,960	7,774,528	5,011,544	4,648,328	4,432,469	39,281,610	32,255,973
Investments in jointly-controlled entities							2,255	2,255
Investments in associates							183,602	166,178
Unallocated assets							23,840,098	19,804,424
Total assets							63,307,565	52,228,830
Segment liabilities	3,874,686	3,399,777	811,847	149,854	433,437	808,813	5,119,971	4,358,444
Unallocated liabilities							42,471,350	32,686,839
Total liabilities							47,591,320	37,045,283

Geographical analysis

The three principal business segments of the Group are mainly operated in the PRC, other Asian regions and Africa. An analysis of the Group's revenue and profit by geographical segments for the six months ended 30 June 2009 and 2008 is set out in the following table:

	The PRC		Asia (excluding the PRC)		Africa		Others		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenue:										
Contract revenue from external customers	13,076,467	6,265,192	5,081,507	4,222,209	1,686,052	2,761,605	801,590	965,074	20,645,616	14,214,080
Sale of goods and services	<u>1,874,012</u>	<u>796,418</u>	<u>1,368,809</u>	<u>1,428,068</u>	<u>811,314</u>	<u>1,072,825</u>	<u>3,007,895</u>	<u>2,217,593</u>	<u>7,062,030</u>	<u>5,514,904</u>
	<u>14,950,479</u>	<u>7,061,610</u>	<u>6,450,316</u>	<u>5,650,277</u>	<u>2,497,366</u>	<u>3,834,430</u>	<u>3,809,485</u>	<u>3,182,667</u>	<u>27,707,646</u>	<u>19,728,984</u>
Other segment information:										
Segment assets	<u>42,417,580</u>	<u>30,857,334</u>	<u>10,481,480</u>	<u>8,347,805</u>	<u>4,508,526</u>	<u>7,697,638</u>	<u>5,899,979</u>	<u>5,326,053</u>	<u>63,307,565</u>	<u>52,228,830</u>

3. TURNOVER

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

An analysis of the Group's revenue and other income and gains is as follows:

	Six months ended 30 June 2009 <i>RMB'000</i>	Six months ended 30 June 2008 <i>RMB'000</i>
Turnover		
Telecommunications system contracts	20,645,616	14,214,080
Sale of goods and services	<u>7,062,030</u>	<u>5,514,904</u>
	<u>27,707,646</u>	<u>19,728,984</u>

4. PROFIT BEFORE TAX

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

	Six months ended 30 June 2009 <i>RMB'000</i>	Six months ended 30 June 2008 <i>RMB'000</i>
Cost of inventories sold	17,188,403	11,786,219
Depreciation	383,308	255,220
Amortisation of intangible assets	57,525	23,191
Amortisation of development expenses	43,353	16,871
Provision for bad debts*	341,154	168,191
Provision for warranties**	6,956	7,897
Write-down/(reversal) of inventories to net realisable value**	104,775	31,267
Loss on disposal of fixed assets*	6,598	3,459
Equity-settled share expense	177,887	148,834

* Provision for bad debts and loss on disposal of fixed assets are included in “Other expenses” on the face of the consolidated income statement.

** The provision for warranties and write-down/(reversal) of inventories to net realisable value are included in “Cost of sales” on the face of the consolidated income statement.

5. TAX

	Six months ended 30 June 2009	Six months ended 30 June 2008
	<i>RMB'000</i>	<i>RMB'000</i>
Group:		
Current — Mainland China	257,134	141,330
Current — Overseas	100,903	135,540
Deferred taxation	(15,580)	(77,654)
Total tax expenses for the period	342,457	199,216

Hong Kong profit tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. The lower Hong Kong profit tax rate was effective for tax assessment for the year 2008/09, and was therefore applicable to assessable profit arising in Hong Kong during the period ending 30 June 2009. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

The Company and its subsidiaries established and operating in the PRC Shenzhen Special Economic Zone (SEZ) are subject to the State Council Circular on the Implementation of the Transitional Concession Policies for Corporate Income Tax (Guo Fa [2007] No. 39), which provides that enterprises previously entitled to concession policies of tax rate reductions shall have a grace period of five years to comply with the requirement of the new statutory tax rate, commencing on 1 January 2008 after the implementation of the new tax law. Enterprises entitled to a 15% corporate income tax rate will be subject to tax rates of 18%, 20%, 22%, 24% and 25% in 2008, 2009, 2010, 2011 and 2012 respectively. Enterprises certificated as high-tech enterprises are still subject to an enterprise income tax rate of 15% under a preferential tax policy. As a hi-tech enterprise in Shenzhen, the Company has obtained the certification as a national-grade hi-tech enterprise, with which the Company enjoys an enterprise income tax rate of 15%.

6. DIVIDEND

The Directors do not recommend any payment of interim dividend for the six months ended 30 June 2009 (Same period of 2008: nil).

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

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

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

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

	Six months ended 30 June 2009 RMB'000	Six months ended 30 June 2008 RMB'000 (Restated)
Earnings		
Net profit attributable to ordinary equity holders of the Company for the period	783,367	557,386
Shares		
Weighted average number of ordinary shares of the Company in issue (<i>Note</i>)	1,746,329	1,746,329
Diluting effect — weighted average number of ordinary shares:		
Restricted Shares under share incentive scheme	46,754	46,754
Adjusted weighted average number of ordinary shares of the Company in issue	1,793,083	1,793,083

Note: In June 2009, the Company enlarged its share capital by 402,999,092 shares by way of capitalisation of capital reserves. After the capitalisation, the total number of ordinary shares in issue was 1,746,329,402 shares. The amounts of earnings per share for the reported periods were computed on the basis of the adjusted number of shares.

8. TRADE AND BILLS RECEIVABLES

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

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 2009 RMB'000	31 December 2008 RMB'000
Within 6 months	16,059,951	10,216,760
7 to 12 months	1,610,023	1,495,092
1 to 2 years	519,179	444,240
2 to 3 years	34,893	6,884
Over 3 years	—	—
	18,224,046	12,162,976
Less: Current portion of trade and bills receivables	(17,667,401)	(11,550,968)
Long-term portion	556,645	612,008

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

	30 June 2009 RMB'000	31 December 2008 RMB'000
The ultimate holding company	—	943
Jointly-controlled entities	—	—
Associates	29,229	16,121
Related companies	31,367	6,156
	<u>60,596</u>	<u>23,220</u>

The balances are unsecured, interest-free and are repayable on demand, and on credit terms similar to those offered to the major customers of the Group.

9. TRADE AND BILLS PAYABLES

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

	30 June 2009 RMB'000	31 December 2008 RMB'000
Within 6 months	22,141,836	15,682,255
7 to 12 months	49,941	76,570
1 to 2 years	79,404	22,529
2 to 3 years	17,288	8,062
Over 3 years	26,207	24,589
Total	<u>22,314,676</u>	<u>15,814,005</u>

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

	30 June 2009 RMB'000	31 December 2008 RMB'000
The ultimate holding company	154,057	129,468
Associates	89,958	87,226
Related companies	67,493	43,785
Total	<u>311,508</u>	<u>260,479</u>

The balances are unsecured, interest-free and are repayable on demand.

Trade payables are non-interest-bearing and are normally settled on 90-day terms.

10. POST-BALANCE SHEET EVENTS

The registration of Subject Share of 85,050,238 shares granted to 4,022 Scheme Participants under the Phase I Share Incentive Scheme of the Company with China Securities Depository and Clearing Company Limited, Shenzhen Branch was completed. The release of lock-up for 14,559,708 Subject Shares under the Phase I Share Incentive Scheme of the Company was completed on 22 July 2009 and the listing of and trading in such shares commenced on 23 July 2009. Deducting Subject Share quota of 43,425 shares which had lapsed without unlocking, the total share capital of the Company had increased by 85,006,813 shares.