

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

**2010 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 summary of report and announcement of results does not contain any false information, misleading statements or material omissions, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of its contents.

An interim report which contains all the information required by Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Hong Kong Listing Rules”) will be published on the website of the Stock Exchange <http://www.hkexnews.hk> in due course.

- 1.2 The interim report has been considered and approved at the Eighth meeting of the Fifth Session of the Board of Directors of the Company. Mr. Hou Weigui, Chairman of the Board, was unable to attend the Meeting due to prior work commitment, and had authorised Mr. Xie Weiliang, Vice Chairman of the Board, to vote on his behalf. Mr. Lei Fanpei, Vice Chairman of the Board, was unable to attend the Meeting due to prior work commitment, and had authorised Mr. Shi Lirong, Director, to vote on his behalf. Ms. Qu Xiaohui, Independent Director, was unable to attend the Meeting due to prior work commitment, and had authorised Mr. Wei Wei, Independent Director, to vote on her behalf.
- 1.3 The interim financial statements of ZTE and its subsidiaries (the “Group”) for the six months ended 30 June 2010 were unaudited.
- 1.4 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 2010 interim report.

§2 PROFILE OF THE LISTED COMPANY

2.1 Corporate information

Abbreviated Name of Stock	ZTE	
Stock code	000063 (A shares)	763 (H shares)
Places 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	
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 representative
Name	Shi Lirong, Feng Jianxiong	Feng Jianxiong	Feng Jianxiong	Xu Yulong, Li Fei
Address	6/F, A Wing, ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China			
Tel	+86 755 2677 0282			
Fax	+86 755 2677 0286			
E-mail	fengjianxiong@zte.com.cn			

2.2 Major financial data and indicators

2.2.1 Major Accounting Data and Financial Indicators prepared in accordance with PRC ASBEs

Unit: RMB in thousands

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

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

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

Note 2: The share capital of the Company for the reporting period was increased from 1,831,336,215 to 2,866,731,684 shares as a result of the Company's placing of new H shares, the exercise of "Zhongxing ZXC1" Warrants and the implementation of the 2009 profit distribution and capitalisation of capital reserves plan. For details please refer to the section headed "3.1 Table of changes in share capital" in this report.

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

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

Note 5: As certain Subject Share quotas under the Phase I Share Incentive Scheme of the Company remaining in lock-up gave rise to potentially dilutive ordinary shares of 64,928,143 shares and 46,753,747 shares for the reporting period and the same period of 2009, respectively, diluted earnings per share has been calculated on the basis of basic earnings per share taking into account

the said factors, and diluted earnings per share for the same period of 2009 has been restated to reflect the implementation of the Company's 2009 profit distribution and capitalisation of capital reserves plan.

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

2.2.2 Extraordinary profit or loss items

✓ Applicable □ N/A

Unit: RMB in thousands

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

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

2.2.3 Major financial data prepared in accordance with HKFRSs

Items	Six months ended 30 June 2010	Six months ended 30 June 2009
Basic earnings per share ^{Note 1} (RMB/share)	0.32	0.30
Fully diluted return on net assets (%)	4.20%	5.31%
Weighted average return on net assets (%)	4.41%	5.40%
Item	30 June 2010	31 December 2009
Net assets per share ^{Note 2} (RMB/share)	7.45	6.37

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

Note 2: Net assets per share attributable to the shareholders of the listed company at the end of the reporting period was calculated on the basis of the total share capital as at the end of the period less 64,928,143 restricted shares remaining in lock-up under share incentive scheme. Net assets per share attributable to the shareholders of the listed company at the end of the previous year was

calculated on the basis of the total share capital as at the end of the previous year less 69,737,523 restricted shares remaining in lock-up under share incentive scheme then and restated to reflect the implementation of the Company's 2009 profit distribution and capitalisation of capital reserves plan.

2.2.4 Differences in net profit and shareholders' equity of the Group 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.

§3 CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

3.1 Table of changes in share capital

☒ Applicable ☐ N/A

Changes in share capital of the Company during the reporting period

Unit: shares

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

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

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

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

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

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

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

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

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

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

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

Shareholdings of top ten shareholders

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

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

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

Descriptions of any connected party relationships or concerted party relationships among the above shareholders	1. There were no connected party relationships or concerted party relationships between Zhongxingxin and the rest of the top ten shareholders and the rest of the top ten shareholders not subject to lock-up. 2. The 7th, 8th, 9th and 10th ranking shareholders among the top 10 shareholders were managed by the same fund manager — E Fund Management Company Limited. 3. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the rest of the top ten shareholders and the rest of the top ten shareholders not subject to lock-up.
---	---

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

3.2.2 Changes in the shareholding of Zhongxingxin, shareholder interested in more than 5% of the Company's shares, during the reporting period were 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 (share)	Class of shares held	Number of Shares subject to lock-up held at the end of the reporting period (shares)	Number of shares not subject to lock-up held at the end of the reporting period (shares)	Number of shares pledged or frozen (shares)
Zhongxingxin	310,107,207	930,321,620	A shares	0	930,321,620	Nil

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

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 and restricted shares under the Share Incentive Scheme held by the Directors, Supervisors and senior management of the Company at the end of the period were as follows:

No.	Name	Title	Number of A shares held at the beginning of the reporting period (shares)	Increase in the number of shares held during the period	Decrease in the number of shares held during the period	Number of A shares held at the end of the reporting period (shares)	Including: number of Restricted shares under share incentive scheme	Reason for the change
Directors of the Company								
1	Hou Weigui	Chairman	659,706	329,854	—	989,560	—	Note 1
2	Lei Fanpei	Vice Chairman	—	—	—	—	—	
3	Xie Weiliang	Vice Chairman	18,200	9,100	—	27,300	12,285	Note 1
4	Zhang Junchao	Director	18,200	9,100	—	27,300	12,285	Note 1
5	Wang Zhanchen	Director	—	—	—	—	—	
6	Dong Lianbo	Director	18,200	9,100	—	27,300	12,285	Note 1
7	Shi Lirong	Director and President	200,283	100,142	—	300,425	—	Note 1
8	Yin Yimin	Director	351,574	175,787	—	527,361	—	Note 1
9	He Shiyong	Director and Executive Vice President	191,633	95,817	—	287,450	—	Note 1
10	Wei Wei	Independent Director	—	—	—	—	—	
11	Qu Xiaohui	Independent Director	—	—	—	—	—	
12	Chen Naiwei	Independent Director	—	—	—	—	—	
13	Tan Zhenhui	Independent Director	—	—	—	—	—	
14	Timothy Alexander Steinert	Independent Director	—	—	—	—	—	
Supervisors of the Company								
15	Zhang Taifeng	Chairman of Supervisory Committee	221,458	110,729	—	332,187	—	Note 1
16	He Xuemei	Supervisor	—	—	—	—	—	
17	Zhou Huidong	Supervisor	26,754	13,377	—	40,131	18,058	Note 1
18	Wang Yan	Supervisor	—	—	—	—	—	
19	Xu Weiyan	Supervisor	5,110	2,556	—	7,666	—	Note 1
Senior management of the Company								
20	Wei Zaisheng	Executive Vice President and Chief Financial Officer	215,233	107,617	—	322,850	—	Note 1
21	Xie Daxiong	Executive Vice President	289,607	144,803	—	434,410	122,850	Note 1
22	Tian Wenguo	Executive Vice President	206,877	103,439	—	310,316	122,850	Note 1
23	Qiu Weizhao	Executive Vice President	182,000	91,000	—	273,000	122,850	Note 1
24	Fang Qingfeng	Executive Vice President	292,500	121,250	50,000	363,750	184,275	Note 1, Note 2
25	Chen Jie	Senior Vice President	366,990	183,495	—	550,485	122,850	Note 1
26	Zhao Xianming	Senior Vice President	347,100	131,050	85,000	393,150	221,130	Note 1, Note 2

No.	Name	Title	Number of A shares held at the beginning of the reporting period (shares)	Increase in the number of shares held during the period	Decrease in the number of shares held during the period	Number of A shares held at the end of the reporting period (shares)	Including: number of Restricted shares under share incentive scheme	Reason for the change
27	Pang Shengqing	Senior Vice President	292,891	109,834	73,223	329,502	184,275	<i>Note 1, Note 2</i>
28	Zeng Xuezhong	Senior Vice President	312,000	156,000	—	468,000	184,275	<i>Note 1</i>
29	Xu Huijun	Senior Vice President	347,100	136,041	75,020	408,121	221,130	<i>Note 1, Note 2</i>
30	Ye Weimin	Senior Vice President	256,524	128,262	—	384,786	122,850	<i>Note 1</i>
31	Ni Qin	Senior Vice President	351,489	175,744	—	527,233	122,850	<i>Note 1</i>
32	Wu Zengqi	Senior Vice President	299,000	112,125	74,750	336,375	184,275	<i>Note 1, Note 2</i>
33	Zhu Jinyun	Senior Vice President	253,708	101,484	50,742	304,450	171,252	<i>Note 1, Note 2</i>
34	Zhang Renjun	Senior Vice President	—	—	—	—	—	
35	Feng Jianxiong	Secretary to the Board of Directors	195,000	87,500	20,000	262,500	122,850	<i>Note 1, Note 2</i>
Total			<u>5,919,137</u>	<u>2,745,206</u>	<u>428,735</u>	<u>8,235,608</u>	<u>2,265,475</u>	

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

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

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

Note 4: The first unlocking of shares granted to the Directors and senior management of the Company under the Share Incentive Scheme was completed on 26 February 2010. For details, please refer to the Announcement of the Company on the First Unlocking of Shares Granted to the Directors and Senior Management of the Company under the Share Incentive Scheme dated 27 February 2010. The second unlocking was completed on 4 June 2010. For details, please refer to the “Announcement on the Completion of the Second Unlocking of Subject Shares under the First Award of the Phase I Share Incentive Scheme of ZTE Corporation” published by the Company on 3 June 2010.

§5 REPORT OF THE BOARD OF DIRECTORS

5.1 Review of Business in the first half of 2010

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

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

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

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

Operating results of the Group for the first half of 2010

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

(1) By market

The domestic market

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

The international market

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

(2) By product

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

Carriers' networks

During the first half of 2010 under review:

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

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

Terminals

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

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

Telecommunication software systems, services and other products

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

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

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

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	30,725,420	20,446,914	33.45%	10.89%	8.62%	1.39%
II. By product						
Carriers' networks	19,000,326	11,772,902	38.04%	1.08%	-5.20%	4.11%
Terminal	7,790,253	6,020,790	22.71%	39.71%	47.87%	-4.27%
Telecommunication software systems, services and other products	<u>3,934,841</u>	<u>2,653,222</u>	<u>32.57%</u>	<u>17.99%</u>	<u>13.69%</u>	<u>2.55%</u>
Total	<u><u>30,725,420</u></u>	<u><u>20,446,914</u></u>	<u><u>33.45%</u></u>	<u><u>10.89%</u></u>	<u><u>8.62%</u></u>	<u><u>1.39%</u></u>
Of which:						
connected transactions*	8,359	4,760	43.06%	-86.28%	-86.78%	2.15%

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

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

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

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

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

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

Unit: RMB in millions

Product segment	For the six months ended 30 June 2010		For the six months ended 30 June 2009	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
Carrier's networks	19,000.3	61.8%	18,796.8	67.8%
Terminal	7,790.3	25.4%	5,575.9	20.1%
Telecommunication software systems, services and other products	<u>3,934.8</u>	<u>12.8%</u>	<u>3,334.9</u>	<u>12.1%</u>
Total	<u><u>30,725.4</u></u>	<u><u>100.0%</u></u>	<u><u>27,707.6</u></u>	<u><u>100.0%</u></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 2010		For the six months ended 30 June 2009	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
The PRC	15,469.9	50.4%	14,950.4	54.0%
Asia (excluding the PRC)	5,250.7	17.1%	6,450.3	23.3%
Africa	4,464.0	14.5%	2,497.4	9.0%
Others	<u>5,540.8</u>	<u>18.0%</u>	<u>3,809.5</u>	<u>13.7%</u>
Total	<u>30,725.4</u>	<u>100.0%</u>	<u>27,707.6</u>	<u>100.0%</u>

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

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

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

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

Cost of sales and gross profit

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

Unit: RMB in millions

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

Unit: RMB in millions

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

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

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

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

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

Other income and revenue

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

Research and development costs

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

Selling and distribution costs

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

Administrative expenses

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

Other expenses

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

Profit from operating activities

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

Finance costs

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

Tax

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

Profit attributable to minority interests

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

Other comprehensive income

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

Debt-equity ratio and the basis of calculation

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

Cash flow data

Unit: RMB in millions

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

Operating activities

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

Investing activities

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

Financing activities

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

Disclosure required under the Hong Kong Listing Rules

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

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

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

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

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 Co., Ltd. on 5 February 2008.

As at 31 December 2009, the amount invested by the Company in projects utilising issue proceeds had met the agreed investment amount set out in issue prospectuses (RMB6,550.39 million) and the portion in excess had been funded by the Company's

internal resources, the details of which have been set out in the Report of the Board of Directors in the 2009 Annual Report of the Company. Such portion would be replaced if the warrants are exercised upon maturity. The listing of the “ZXC1” Warrants which constituted part of the Bonds cum Warrants ended at 15:00 on 12 February 2010 and a total of 23,348,590 “ZXC1” Warrants had been exercised as at the close of trading on 12 February 2010 for the subscription of a total of 21,523,441 A shares, generating total issue proceeds of RMB912,464,759. In order to enhance the efficiency of fund application and reduce finance costs, the Company replaced internal funds that had previously been invested in the issue proceed projects with proceeds from the exercise of the warrants. For details, please refer to the “Announcement of the Company on the replacement of internal funds that had previously been invested in the issue proceed projects with proceeds from the exercise of the warrants” dated 25 March 2010.

- (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 the previous last year

☐ Applicable ☒ N/A

5.13 Business outlook and risk exposure for the second half of 2010

5.13.1 Business outlook for the second half of 2010

Looking to the second half of the year, carriers will continue to set sight on the development of mobile broadband, which will necessitate ongoing broadband construction to provide requisite support. Carriers will step up with their experiment and deployment of high-end technologies or even 4G technology, in connection with which novel technologies, such as Internet of Things and Cloud Computing, etc, are expected to be more extensively adopted by carriers. In the meantime, the gradual

implementation of the integration of the 3 networks in the domestic market will give rise to the development of a variety of technologies and services in the relevant sectors, which would present additional development opportunities for the Group.

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

5.13.2 Business risk exposure

(1) Foreign exchange risks

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

(2) Interest rate risks

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

(3) Credit risks

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

(4) Country risks

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

§6 MATERIAL MATTERS

6.1 Acquisition, 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 any asset reorganisation or acquisition or sale of assets and its effects on the operating results and financial position for the reporting period subsequent to the publication or announcement of the relevant asset reorganisation report or acquisition or sale of assets

☐ Applicable ☒ N/A

6.2 Guarantees

☒ Applicable ☐ N/A

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

Guaranteed party	Date and code number of announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties (Yes/No)
Djibouti Telecom S.A.	19 April 2007, 200720	RMB50 million	8 September 2006	RMB50 million	Joint liability	12 years	No	No
Benin Telecoms S.A. <i>Note 1</i>	23 July 2007, 200735	USD3 million	28 June 2007	USD3 million	Assurance	6.5 years	No	No
TRANSAM S.A. <i>Note 2</i>	28 April 2010, 201052	USD2.80 million	N/A	—	Joint liability	—	No	No
Total amount of third-party guarantee approved during the reporting period (A1)								USD2.80 million
Total amount of third-party guarantee actually incurred during the reporting period (A2)								0
Total amount of third-party guarantee approved as at the end of the reporting period (A3)								RMB 89,387,200
Total amount of third-party guarantee actually incurred as at the end of the reporting period (A4)								RMB 70,372,700

Guarantees provided by the Company on behalf of subsidiaries

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

Guaranteed party	Date and code number of announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties (Yes/No)
ZTE Telecom India Private Limited <i>Note 5</i>	13 November 2009, 200945	USD3 million	31 December 2009	INR 6,848,100	Joint liability assurance	From maturity to the date on which performance of obligations of ZTE India under “Framework Agreement for Infrastructure Network Construction” is completed	No	No
Total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1)								0
Total amount of guarantee on behalf of subsidiaries actually incurred during the reporting period (B2)								0
Total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3)								RMB 1,742,544,900
Total amount of guarantee on behalf of subsidiaries actually incurred as at the end the reporting period (B4)								RMB 591,125,500
Total amount guaranteed by the Company (sum of the two categories aforesaid)								
Total amount of guarantee approved during the reporting period (A1 + B1)								USD 2.80 million
Total amount of guarantee actually incurred during the reporting period (A2 + B2)								0
Total amount of guarantee approved as at the end of the reporting period <i>Note 1</i> (A3 + B3)								RMB 1,811,559,400
Total amount of guarantee actually incurred as at the end the reporting period (<i>Note 1</i>) (A4 + B4)								RMB 641,125,500
Total guaranteed amount as a percentage of net assets of the Company (A4 + B4)								3.07%

Guaranteed party	Date and code number of announcement disclosing the guarantee amount	Amount of relevant agreements	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Whether fully Term performed	Whether provided on behalf of connected parties (Yes/No)
Including:							
Amounts of guarantees provided on behalf of shareholders, effective controllers and their connected parties (C)							0
Amount of debt guarantee provided directly or indirectly on behalf of parties with a gearing ratio exceeding 70% (D)							RMB 591,125,500
Amount of total guarantee exceeding 50% of net assets (E)							0
Aggregate amount of the three guarantee amounts stated above (C+D+E)							RMB 591,125,500
Statement on potential joint liability involved in outstanding guarantees							N/A

Note 1: Guarantee provided by ZTE HK, a wholly-owned subsidiary of the Company, in the form of a standby letter of credit backed by its bank credit facility, while the bank credit facility of ZTE HK is guaranteed by the Company. In effect of the aforesaid two guarantees, ZTE is the ultimate guarantor and Benin Telecoms is the ultimate party being guaranteed, for an amount of USD3 million. As the gearing ratio of Benin Telecoms was in excess of 70%, the aforesaid guarantee was subject to consideration and approval by the Board of Directors and the general meeting of the Company in accordance with requirements of relevant laws and regulations. These two guarantees have been treated as the same guarantee in the calculation of the sum of the total amount of guarantee approved as at the end of the reporting period and the total balance of actually incurred as at the end the reporting period.

Note 2: The provision by the Company of a USD2.80 million guarantee by way of a performance guarantee letter on behalf of Chilean mobile carrier TRANSAM S.A was considered and approved at the Third Meeting of the Fifth Session of the Board of Directors, the details of which were disclosed in the “Announcement of External Guarantee” published in the China Securities Journal, Securities Times and Shanghai Securities News on 28 April 2010. As of the date of this report, the guarantee has yet to be performed.

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

Note 4: It was respectively approved at the Twenty-fourth and Twenty-fifth Meetings of the Fourth Session of the Board of Directors that the 51% equity interests in Closed Joint-Stock Company CJSC TK Mobile (“CJSC TK Mobile”) held by the Company be applied as a security against a bank loan extended to CJSC TK Mobile; a performance guarantee of US\$40 million be provided by the Company for PT. ZTE Indonesia (“ZTE Indonesia”), a wholly-owned subsidiary and application be made by the Company to the relevant bank for the issuance of a letter of performance guarantee with an amount of US\$5 million. Since the gearing ratio of both CJSC TK Mobile and ZTE Indonesia was above 70%, the aforesaid guarantees were approved at the first

extraordinary general meeting of 2009 in accordance with relevant laws and regulations. As at the date of this report, a US\$5 million guarantee for ZTE Indonesia provided by way of standby letter of credit backed by the Company's banking credit facilities has been executed and the US\$40 million performance guarantee agreement has been signed. The guarantee provided in respect of CJSC TK Mobile's bank loans by way of pledge of equity has yet to be performed as the relevant agreement has yet to be signed.

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

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

Note 7: All third party guarantees of the Company shall be submitted to the Board of Directors for its review and shall require the approval of two-thirds of the members of the Board in order to be effective. If such third party guarantees are otherwise subject to review and approval at the general meeting, then they shall be tabled at the general meeting following approval by the Board of Directors in order to be effective.

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. There was no substantial progress during the reporting period for other litigation and arbitration proceedings that occurred in previous years. If any progress is being made in such matters, the Company will make announcements in a timely manner.

6.5 Other significant events and analysis of their impact 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

Unit: RMB in thousands

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

6.5.3 Appropriations of non-operating funds by the majority shareholder and its subsidiaries and repayment status

☐ Applicable ☒ N/A

6.5.4 H Share Placing of the Company

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

6.5.5 Performance of undertakings by the Company, shareholders and the de facto controller

☒ 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.

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

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

6.5.6 Proposal of the Board of Directors for profit distribution or share capital increase by way of capitalisation of capital reserve

☐ Applicable ☒ N/A

The Company will not make any profit distribution or capitalisation of capital reserve for the interim period of 2010.

6.5.7 Progress of the Phase I Share Incentive Scheme of the Company

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

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

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

6.5.8 Other breakdown items in comprehensive income

Unit: RMB in thousands

Item	Six months ended 30 June 2010	Six months ended 30 June 2009
Foreign currency translation difference	-135,085	-46,371

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	April 2010	2009 annual results presentation	Analysts and investors	2009 annual report	Published announcements and regular reports
	Shenzhen	April 2010	Teleconference	Analysts and investors	2010 first quarterly report	Published announcements and regular reports
External meetings	Hong Kong	March 2010	Credit Suisse Asia Investment Forum	Customers of Credit Suisse	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	May 2010	CLSA investors' meeting	Customers of CLSA	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	May 2010	Morgan Stanley investors' meeting	Customers of Morgan Stanley	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	June 2010	Goldman Sachs investors' meeting	Customers of Goldman Sachs	Day-to-day operations of the Company	Published announcements and regular reports
	Lijiang	June 2010	Sinolink Securities Interim Strategy Meeting	Customers of Sinolink	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	June 2010	Everbright Securities Interim Strategy Meeting	Customers of Everbright Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	June 2010	China Merchants Securities Interim Strategy Meeting	Customers of China Merchants Securities	Day-to-day operations of the Company	Published announcements and regular reports

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

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 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 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 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 2010.

§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 Details, causes and impact of changes in accounting policies or accounting estimates or corrections of accounting errors, if any

☐ Applicable ☒ N/A

7.3.2 Details, causes and impact of significant changes in the scope of consolidated financial statements, if any

☐ Applicable ☒ N/A

7.3.3 Explanatory notes on matters in relation to which a qualified auditors' report has been furnished, if any

☐ Applicable ☒ N/A

By order of the Board
Hou Weigui
Chairman

Shenzhen, PRC
19 August 2010

As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Shi Lirong, Yin Yimin and He Shiyong; six non-executive directors, Hou Weigui, Lei Fanpei, Xie Weiliang, Wang Zhancheng, Zhang Junchao and Dong Lianbo; and five independent non-executive directors, Qu Xiaohui, Wei Wei, Chen Naiwei, Tan Zhenhui and Timothy Alexander Steinert.

APPENDIX I: FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH PRC ASBES (UNAUDITED)

Consolidated Balance Sheet

RMB in thousands

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

Consolidated Balance Sheet (continued)*RMB in thousands*

	30 June 2010 (Unaudited)	31 December 2009 (Audited)
Liabilities and shareholders' equity		
Current liabilities		
Short-term loans	5,423,154	4,906,503
Bank advances on factored trade receivables	2,887,541	2,870,221
Bills payable	7,047,457	8,484,861
Trade payables	14,054,488	13,046,804
Amount due to customers for contract work	2,751,409	2,519,706
Advances from customers	3,148,375	2,337,628
Salary and welfare payables	1,558,536	2,398,720
Taxes payable	(259,858)	77,715
Dividend payable	128,143	16,966
Other payables	2,699,491	2,213,477
Deferred income	226,474	92,830
Provision	202,371	189,664
Long-term loans due within one year	<u>3,556,203</u>	<u>1,939,965</u>
Total current liabilities	<u>43,423,784</u>	<u>41,095,060</u>
Non-current liabilities		
Long-term loans	1,319,181	2,396,393
Bank advances on factored long-term trade receivables	3,320,883	2,968,629
Bonds payable	3,678,023	3,632,681
Deferred tax liabilities	3,551	3,924
Other non-current liabilities	<u>347,478</u>	<u>296,769</u>
Total non-current liabilities	<u>8,669,116</u>	<u>9,298,396</u>
Total liabilities	<u>52,092,900</u>	<u>50,393,456</u>

Consolidated Balance Sheet (continued)*RMB in thousands*

	30 June 2010 (Unaudited)	31 December 2009 (Audited)
Shareholders' equity		
Share capital	2,866,732	1,831,336
Capital reserves	9,434,158	6,749,899
Restricted shares remaining in lock-up	(290,572)	(447,235)
Surplus reserves	1,505,203	1,505,203
Retained profits	7,723,235	6,853,682
Proposed final dividend	—	552,425
Foreign currency translation difference	(355,033)	(220,043)
Total equity attributable to equity holders of the parent	20,883,723	16,825,267
Minority interests	1,080,367	1,123,599
Total shareholders' equity	21,964,090	17,948,866
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	74,056,990	68,342,322

Legal representative:
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Finance Division:
Shi Chunmao

Consolidated Income Statement

RMB in thousands

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

Consolidated Statement of Changes in Equity

RMB in thousands

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

Consolidated Statement of Changes in Equity (continued)

RMB in thousands

For the six months ended 30 June 2009 (unaudited)

Attributable to shareholders' equity of the parent

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

Consolidated Cash Flow Statement

RMB in thousands

	Six months ended 30 June 2010 (Unaudited)	Six months ended 30 June 2009 (Unaudited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering services	31,398,128	22,127,889
Cash received from taxes returned	1,986,587	1,695,724
Cash received relating to other operating activities	<u>444,551</u>	<u>133,835</u>
Sub-total of cash inflow	<u>33,829,266</u>	<u>23,957,448</u>
Cash paid for goods and services	23,229,494	15,814,789
Cash paid to and on behalf of employees	5,844,914	4,243,320
Payments of taxes and levies	3,139,200	1,494,958
Cash paid relating to other operating activities	<u>5,299,970</u>	<u>3,579,584</u>
Sub-total of cash outflow	<u>37,513,578</u>	<u>25,132,651</u>
Net cash flows from operating activities	<u>(3,684,312)</u>	<u>(1,175,203)</u>
II. Cash flows from investing activities		
Cash received from sale of investments	—	2,808
Cash received from gains of investment	3,581	8,229
Net cash received from disposal of fixed assets, intangible assets and other long-terms assets	<u>2,983</u>	<u>488</u>
Sub-total of cash inflow	<u>6,564</u>	<u>11,525</u>
Cash paid to acquire fixed asset, intangible assets and other long term assets	1,433,074	390,832
Cash paid for investment	<u>4,500</u>	<u>16,976</u>
Sub-total of cash outflow	<u>1,437,574</u>	<u>407,808</u>
Net cash flow from investing activities	<u>(1,431,010)</u>	<u>(396,283)</u>

Consolidated Cash Flow Statement (continued)*RMB in thousands*

	Six months ended 30 June 2010 (Unaudited)	Six months ended 30 June 2009 (Unaudited)
III. Cash flows from financing activities		
Cash received from investment	3,197,918	33,956
Including: Capital contributed to the subsidiaries by minority interests	—	—
Cash received from borrowings	<u>4,834,596</u>	<u>7,638,557</u>
Sub-total of cash inflow	<u>8,032,514</u>	<u>7,672,513</u>
Cash paid for debt repayments	3,778,919	4,575,017
Cash payments for distribution of dividends, profit or interest expenses	912,571	743,149
Sub-total of cash outflow	<u>4,691,490</u>	<u>5,318,166</u>
Net cash flow from financing activities	<u>3,341,024</u>	<u>2,354,347</u>
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	<u>(15,988)</u>	<u>(50,178)</u>
V. Net increase in cash and cash equivalents	(1,790,286)	732,683
Add: Opening balance of cash and cash equivalents	<u>14,075,822</u>	<u>11,344,160</u>
VI. Closing balance of cash and cash equivalents	<u>12,285,536</u>	<u>12,076,843</u>

Balance Sheet*RMB in thousands*

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

Balance Sheet (continued)*RMB in thousands*

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

Income Statement

RMB in thousands

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

Statement of Changes in Equity

RMB in thousands

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

Statement of Changes in Equity (continued)

RMB in thousands

For the six months ended 30 June 2009 (unaudited)

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

Cash Flow Statement

RMB in thousands

	Six months ended 30 June 2010 (Unaudited)	Six months ended 30 June 2009 (Unaudited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering services	26,916,276	20,925,787
Cash received from taxes returned	1,561,518	1,142,593
Cash received relating to other operating activities	<u>217,250</u>	<u>93,915</u>
Sub-total of cash inflow	<u>28,695,044</u>	<u>22,162,295</u>
Cash paid for goods and services	26,989,354	21,010,570
Cash paid to and on behalf of employees	1,424,783	1,110,119
Payments of taxes and levies	330,638	95,665
Cash paid relating to other operating activities	<u>4,001,059</u>	<u>3,424,254</u>
Sub-total of cash outflow	<u>32,745,834</u>	<u>25,640,608</u>
Net cash flows from operating activities	<u>(4,050,790)</u>	<u>(3,478,313)</u>
II. Cash flows from investing activities		
Cash received from sale of investments	—	—
Cash received from gains of investment	<u>41,267</u>	<u>48,067</u>
Sub-total of cash inflow	<u>41,267</u>	<u>48,067</u>
Cash paid to acquire fixed asset, intangible assets and other long term assets	985,214	311,199
Cash paid for investment	<u>—</u>	<u>134,176</u>
Sub-total of cash outflow	<u>985,214</u>	<u>445,375</u>
Net cash flow from investing activities	<u>(943,947)</u>	<u>(397,308)</u>

Cash Flow Statement (continued)*RMB in thousands*

	Six months ended 30 June 2010 (Unaudited)	Six months ended 30 June 2009 (Unaudited)
III. Cash flows from financing activities		
Cash received from investment	3,197,918	33,456
Cash received from borrowings	<u>3,577,794</u>	<u>5,398,483</u>
Sub-total of cash inflow	<u>6,775,712</u>	<u>5,431,939</u>
Cash paid for debt repayments	2,241,650	1,704,784
Cash payments for distribution of dividends, profit or interest expenses	<u>859,408</u>	<u>685,089</u>
Sub-total of cash outflow	<u>3,101,058</u>	<u>2,389,873</u>
Net cash flow from financing activities	<u>3,674,654</u>	<u>3,042,066</u>
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	<u>(45,172)</u>	<u>(63,458)</u>
V. Net increase in cash and cash equivalents	(1,365,255)	(897,013)
Add: Opening balance of cash and cash equivalents	<u>9,808,228</u>	<u>8,323,750</u>
VI. Closing balance of cash and cash equivalents	<u><u>8,442,973</u></u>	<u><u>7,426,737</u></u>

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Prepared under HKFRSs)

Six months ended 30 June 2010

		Six months ended 30 June 2010 (Unaudited) RMB'000	Six months ended 30 June 2009 (Unaudited) RMB'000
	<i>Note</i>		
Revenue	3	30,725,420	27,707,646
Cost of sales		<u>(20,874,496)</u>	<u>(19,265,232)</u>
Gross profit		9,850,924	8,442,414
Other income and gains		860,769	793,405
Research and development costs		(3,195,277)	(2,606,448)
Selling and distribution costs		(4,065,957)	(3,230,212)
Administrative expenses		(1,142,620)	(1,430,567)
Other expenses		(543,251)	(375,704)
Finance costs		(393,926)	(392,152)
Share of profits and losses of associates		<u>22,197</u>	<u>10,460</u>
Profit before tax	4	1,392,859	1,211,196
Income tax expense	5	<u>(399,571)</u>	<u>(342,457)</u>
Profit for the period		<u><u>993,288</u></u>	<u><u>868,739</u></u>
Attributable to:			
Equity owners of the parent		877,489	783,367
Minority interests		<u>115,799</u>	<u>85,372</u>
		<u><u>993,288</u></u>	<u><u>868,739</u></u>
Earnings per share attributable to ordinary shareholders of the parent			
Basic	7	<u>RMB0.32</u>	<u>RMB0.30</u>
Diluted		<u>RMB0.31</u>	<u>RMB0.29</u>
Other comprehensive income		(135,085)	(46,371)
Comprehensive income		858,203	822,368
Attributable to:			
Equity owners of the parent		742,499	736,996
Minority interests		<u>115,704</u>	<u>85,372</u>
		<u><u>858,203</u></u>	<u><u>822,368</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Prepared under HKFRSs)

30 June 2010

		30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
	Note		
Non-current assets			
Property, plant and equipment		6,701,932	6,057,574
Prepaid land lease payments		579,461	503,771
Intangible assets		1,238,521	877,397
Investments in a jointly-controlled entity		2,256	2,255
Investments in associates		899,771	438,027
Available-for-sale investments		257,908	253,760
Long-term trade receivables	8	950,355	383,749
Factored long-term trade receivables		3,320,883	2,968,629
Deferred tax assets		524,496	643,918
Pledged deposits		<u>856,912</u>	<u>608,359</u>
Total non-current assets		<u>15,332,495</u>	<u>12,737,439</u>
Current assets			
Prepaid land lease payments		12,974	10,980
Inventories		11,345,804	9,324,800
Amount due from customers for contract works		11,237,486	11,388,496
Trade and bills receivables	8	18,837,562	16,098,327
Factored trade receivables		2,887,541	2,870,221
Prepayments, deposits and other receivables		2,894,876	2,537,793
Derivative financial assets		77,776	—
Pledged deposits		260,260	420,986
Cash and cash equivalents		<u>12,285,536</u>	<u>14,075,822</u>
Total current assets		<u>59,839,815</u>	<u>56,727,425</u>
Current liabilities			
Trade and bills payables	9	21,101,945	21,531,665
Amount due to customers for contract works		2,751,409	2,519,706
Other payables and accruals		8,129,138	7,285,229
Interest-bearing bank borrowings		8,979,357	6,846,468
Bank advances on factored trade receivables		2,887,541	2,870,221
Tax payable		561,571	1,147,347
Dividends payable		<u>128,143</u>	<u>16,966</u>
Total current liabilities		<u>44,539,104</u>	<u>42,217,602</u>
Net current assets		<u>15,300,711</u>	<u>14,509,823</u>
Total assets less current liabilities		<u>30,633,206</u>	<u>27,247,262</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

(Prepared under HKFRSs)

30 June 2010

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
<i>Note</i>		
Total assets less current liabilities	<u>30,633,206</u>	<u>27,247,262</u>
Non-current liabilities		
Interest-bearing bank borrowings	1,319,181	2,396,393
Bank advances on factored long-term trade receivables	3,320,883	2,968,629
Bonds cum warrants	3,678,023	3,632,681
Deferred tax liabilities	3,551	3,924
Financial guarantee contract	3,689	3,689
Provision for retirement benefits	37,508	38,028
Other long-term payables	<u>306,281</u>	<u>255,052</u>
Total non-current liabilities	<u>8,669,116</u>	<u>9,298,396</u>
Net assets	<u><u>21,964,090</u></u>	<u><u>17,948,866</u></u>
Equity		
Equity attributable to shareholders of the parent		
Issued capital	2,866,732	1,831,336
Restricted shares remaining in lock-up	(290,572)	(447,235)
Equity component of bonds cum warrants	580,210	580,210
Reserves	17,727,353	14,308,531
Proposed final dividends	<u>—</u>	<u>552,425</u>
	20,883,723	16,825,267
Minority interests	<u>1,080,367</u>	<u>1,123,599</u>
Total equity	<u><u>21,964,090</u></u>	<u><u>17,948,866</u></u>

Director: Hou Weigui

Director: Shi Lirong

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

HKFRS 1(Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment — Vesting Conditions and Cancellations
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation — Classification of Rights Issues
Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008	Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations — Plan to Sell the Controlling Interest in a Subsidiary
HKAS39 Amendments	Amendments to HKAS 39 Financial Instruments: Recognition and Measurement — Embedded Derivatives
Annual Improvements Project	Improvements to HKFRSs 2009
HK-Interpretation 4 amendment	Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners

2. SEGMENT INFORMATION

An analysis of the Group's revenue and profit by operating segment for the six months ended 30 June 2010 and 2009 is set out in the following table:

	Networks <i>RMB'000</i>	Terminals <i>RMB'000</i>	Telecommunications software systems, services and other products <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 30 June 2010				
Segment revenue:				
Telecommunications systems contracts	19,000,326	—	2,558,066	21,558,392
Sales of goods and services	<u>—</u>	<u>7,790,253</u>	<u>1,376,775</u>	<u>9,167,028</u>
	<u>19,000,326</u>	<u>7,790,253</u>	<u>3,934,841</u>	<u>30,725,420</u>
Segment results	4,464,723	636,737	709,482	5,810,942
Bank and other interest income				42,800
Dividend income and unallocated gains				817,969
Other unallocated expenses				(4,907,123)
Finance costs				(393,926)
Share of profits and losses of associates				<u>22,197</u>
Profit before tax				<u>1,392,859</u>
As at 30 June 2010				
Segment assets	33,905,260	7,652,818	7,021,553	48,579,631
Interests in associates				899,771
Investments in jointly-controlled entity				2,256
Other unallocated assets				<u>25,690,652</u>
Total assets				<u>75,172,310</u>
Segment liabilities	9,369,579	798,252	1,940,377	12,108,208
Unallocated liabilities				<u>41,100,012</u>
Total liabilities				<u>53,208,220</u>
Other segment information				
Impairment losses recognised in profit or loss	94,051	38,561	19,477	152,089
Depreciation and amortisation	312,692	128,206	64,757	505,655
Capital expenditure	<u>1,018,958</u>	<u>417,780</u>	<u>211,020</u>	<u>1,647,758</u>

	Networks <i>RMB'000</i>	Terminals <i>RMB'000</i>	Telecommunications software systems, services and other products <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 30 June 2009				
Segment revenue:				
Telecommunications systems contracts	18,796,810	—	1,848,806	20,645,616
Sales of goods and services	<u>—</u>	<u>5,575,904</u>	<u>1,486,126</u>	<u>7,062,030</u>
	<u>18,796,810</u>	<u>5,575,904</u>	<u>3,334,932</u>	<u>27,707,646</u>
Segment results	3,735,684	905,732	570,786	5,212,202
Bank and other interest income				48,998
Dividend income and unallocated gains				744,407
Other unallocated expenses				(4,412,719)
Finance costs				(392,152)
Share of profits and losses of associates				<u>10,460</u>
Profit before tax				<u>1,211,196</u>
31 December 2009				
Segment assets	31,782,376	5,513,601	5,738,245	43,034,222
Interests in associates				438,027
Investments in jointly-controlled entity				2,255
Other unallocated assets				<u>25,990,360</u>
Total assets				<u>69,464,864</u>
Segment liabilities	8,630,920	506,969	1,558,295	10,696,184
Unallocated liabilities				40,819,814
Total liabilities				<u>51,515,998</u>

Geographical analysis

The three operating segments of the Group are mainly operated in the PRC, other Asian regions and Africa. An analysis of the Group's revenue and profit by geographical segments for the six months ended 30 June 2010 and 2009 is set out in the following table:

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

3. TURNOVER

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

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

	Six months ended 30 June 2010 RMB'000	Six months ended 30 June 2009 RMB'000
Turnover		
Telecommunications system contracts	21,558,392	20,645,616
Sale of goods and services	<u>9,167,028</u>	<u>7,062,030</u>
	<u>30,725,420</u>	<u>27,707,646</u>

4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting) the following:

	Six months ended 30 June 2010 RMB'000	Six months ended 30 June 2009 RMB'000
Cost of goods and services	17,998,127	17,188,403
Depreciation	419,211	383,308
Amortisation of intangible assets (other than deferred development costs)	13,349	57,525
Amortisation of deferred development costs	73,095	43,353
Impairment of trade receivables*	254,587	341,154
Provision for warranties**	19,267	6,956
Write-down/(reversal) of inventories to net realisable value**	(102,498)	104,775
Loss on disposal of property, plant and equipment*	10,222	6,598
Equity-settled share expense	79,478	177,887

* Impairment of trade receivables and loss on disposal of property, plant and equipment are included in "Other expenses" on the face of the consolidated income statement.

** The provision for warranties, amortisation of deferred development costs and write-down of inventories to net realisable value are included in "Cost of sales" on the face of the consolidated income statement.

5. TAX

	Six months ended 30 June 2010 RMB'000	Six months ended 30 June 2009 RMB'000
Group:		
Current — Mainland China	387,428	257,134
Current — Overseas	58,084	100,903
Deferred taxation	<u>(45,941)</u>	<u>(15,580)</u>
Total tax expenses for the period	<u>399,571</u>	<u>342,457</u>

Hong Kong profit tax has been provided at the rate of 16.5% (2009:16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

As a national-grade hi-tech enterprise in Shenzhen, the Company is entitled to an enterprise income tax rate of 15% for the years 2008 to 2010.

6. DIVIDEND

The Directors do not recommend any payment of interim dividend for the six months ended 30 June 2010 (Same period of 2009: nil).

7. EARNINGS PER SHARE

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

The calculation of diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the 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 2010	Six months ended 30 June 2009 (Restated)
Earnings		
Net profit attributable to ordinary equity holders of the Company for the period	<u>877,489</u>	<u>783,367</u>
Shares		
Weighted average number of ordinary shares of the Company in issue (<i>Note 1</i>)	2,736,790	2,619,494
Restricted Shares under share incentive scheme (<i>Note 2</i>)	<u>64,928</u>	<u>70,131</u>
Adjusted weighted average number of ordinary shares of the Company in issue	<u>2,801,718</u>	<u>2,689,625</u>

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

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

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. With the exception of certain overseas customers, the credit period is generally 90 days and is extendable up to one year depending on customers' credit worthiness. The credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

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

	30 June 2010 RMB'000	31 December 2009 RMB'000
Within 1 year	18,906,937	16,053,832
1 to 2 years	811,987	413,242
2 to 3 years	64,950	15,002
Over 3 years	4,043	—
	19,787,917	16,482,076
Less: Current portion of trade and bills receivables	(18,837,562)	(16,098,327)
Long-term portion	950,355	383,749

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

	30 June 2010 RMB'000	31 December 2009 RMB'000
The ultimate holding company	—	—
Jointly-controlled entities	—	—
Associates	35	12,459
Related companies	19,805	—
	<u>19,840</u>	<u>12,459</u>

The balances are unsecured, interest-free 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 2010 RMB'000	31 December 2009 RMB'000
Within 6 months	20,832,568	21,161,940
7 to 12 months	67,586	41,328
1 to 2 years	64,179	276,089
2 to 3 years	17,984	24,525
Over 3 years	119,628	27,783
Total	<u>21,101,945</u>	<u>21,531,665</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 2010 RMB'000	31 December 2009 RMB'000
The holding company	58,150	85,566
Related companies	59,385	54,601
Associates	55,645	75,796
Total	<u>173,180</u>	<u>215,963</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

Nil.