

Balance Sheet

(Prepared under PRC GAAP)

Unit: RMB'000

Assets	Explanatory notes	30 June 2005		31 December 2004	
		Consolidated	Company	Consolidated	Company
Current assets:					
Cash in banks and on hand	1	3,797,356	2,782,581	7,598,223	6,463,165
Short-term investments		—	—	—	—
Notes receivables	2	2,067,281	2,037,355	2,258,088	2,240,530
Dividends receivables		—	11,191	—	1,371
Interests receivables		—	—	—	—
Accounts receivables	3	4,155,622	4,501,990	3,652,506	4,016,330
Other receivables	4	461,462	988,592	257,595	738,183
Prepayments	5	137,055	97,771	145,398	58,380
Subsidies receivables		—	—	—	—
Inventories	6	1,970,962	1,068,608	1,882,808	1,738,023
Contract amounts receivables	7	4,192,285	4,673,432	2,614,250	2,923,536
Technology development costs	8	272,080	272,080	146,700	146,700
Deferred expenses		—	—	478	—
Long-term bond investments maturing within one year		—	—	—	—
Other current assets		—	—	—	—
Total current assets		17,054,103	16,433,600	18,556,046	18,326,218
Long-term investments:					
Long-term equity investments	9	86,184	3,277,580	67,176	2,992,995
Long-term bond investments		—	—	—	—
Total long-term investments		86,184	3,277,580	67,176	2,992,995
Fixed assets:					
Fixed assets — cost	10	3,046,745	2,085,376	2,725,769	1,877,501
Less: accumulated depreciation	10	935,418	578,647	793,323	469,997
Net fixed assets		2,111,327	1,506,729	1,932,446	1,407,504
Less: provision for fixed asset impairment	10	94,980	87,002	94,980	87,002
Fixed assets — net book value		2,016,347	1,419,727	1,837,466	1,320,502
Project supplies		—	—	—	—
Construction in progress	11	200,221	165,836	114,677	98,100
Disposal of fixed assets		—	—	—	—
Total fixed assets		2,216,568	1,585,563	1,952,143	1,418,602
Intangible and other assets:					
Intangible assets	12	160,713	86,557	146,214	94,358
Long-term prepaid expenses	13	11,511	11,511	23,785	13,376
Other long-term assets		—	—	—	—
Total intangible and other assets		172,224	98,068	169,999	107,734
Deferred taxation:					
Deferred tax assets	14	79,803	76,419	104,625	76,419
Total assets		19,608,882	21,471,230	20,849,989	22,921,968

Legal representative:
Hou Weigui

Person in charge of accounting function:
Wei Zaisheng

Person in charge of accounting department:
Shi Chunmao

(Continued)

Balance Sheet (continued)

(Prepared under PRC GAAP)

Unit: RMB'000

Liabilities and owner's equity	Explanatory notes	30 June 2005		31 December 2004	
		Consolidated	Company	Consolidated	Company
Current liabilities:					
Short-term loans	15	40,738	—	405,695	340,344
Notes payables		1,542,511	1,716,429	1,422,401	1,453,282
Accounts payables	16	3,555,083	6,052,657	2,919,483	5,295,321
Advances from customers	17	1,312,259	1,076,453	2,630,721	2,455,494
Accrued payroll		596,497	384,618	1,031,464	663,925
Welfare benefits payables		413,694	338,965	437,786	362,467
Dividends payables		273,219	240,801	40,921	920
Taxation payable	18	(242,442)	(518,577)	52,459	(175,111)
Other levies		7,442	654	13,197	900
Other payables	19	589,945	1,117,663	698,727	1,078,453
Accruals	20	463,826	303,471	268,534	248,486
Anticipated liabilities	21	20,000	20,000	20,000	20,000
Deferred income		—	—	—	—
Long-term loans due within one year	22	16,000	—	16,900	—
Other current liabilities		—	—	—	—
Total current liabilities		8,588,772	10,733,134	9,958,288	11,744,481
Long-term liabilities:					
Long-term loans	23	574,696	500,000	1,025,263	950,000
Bonds payables		—	—	—	—
Long-term amounts payables		—	—	—	—
Specific amounts payables	24	312,500	272,080	227,320	177,800
Other long-term liabilities		—	—	—	—
Total long-term liabilities		887,196	772,080	1,252,583	1,127,800
Total liabilities		9,475,968	11,505,214	11,210,871	12,872,281
Minority interests:					
Minority interests:		517,034	—	464,679	—
Owner's equity:					
Share capital	25	959,522	959,522	959,522	959,522
Capital reserve	26	5,501,066	5,527,538	5,491,658	5,515,822
Surplus reserve	27	985,356	650,718	985,356	650,718
Comprising: statutory welfare reserve	27	252,006	202,836	252,006	202,836
Undistributed profit	28	2,183,094	2,829,421	1,495,431	2,682,269
Exchange difference		(13,158)	(1,183)	2,592	1,476
Cash dividends declared		—	—	239,880	239,880
Total owner's equity		9,615,880	9,966,016	9,174,439	10,049,687
Total liabilities and owner's equity		19,608,882	21,471,230	20,849,989	22,921,968

Legal representative:
Hou Weigui

Person in charge of accounting function:
Wei Zaisheng

Person in charge of accounting department:
Shi Chunmao

Income Statements & Statements of Income Distribution

(Prepared under PRC GAAP)

Unit: RMB'000

Items	Explanatory notes	January–June 2005		January–June 2004	
		Consolidated	Company	Consolidated	Company
1. Revenue from principal operations	29	10,302,998	9,952,489	11,774,259	11,312,014
Less: Cost of principal operations	29	6,423,483	8,109,916	7,438,912	8,423,638
Tax and levies on principal operations	30	36,443	11,474	32,236	23,255
2. Profit from principal operations		3,843,072	1,831,099	4,303,111	2,865,121
Add: Profit from other operations	31	2,735	4,178	36,535	19,177
Less: Selling and distribution expenses		1,447,211	1,156,146	1,313,868	1,232,191
General and administrative expenses		1,588,646	685,648	2,376,196	1,429,992
Finance expenses	32	98,706	106,277	103,270	89,967
3. Operating profit		711,244	(112,794)	546,312	132,148
Add: Investment income	33	(289)	256,272	(1,457)	569,689
Subsidies income	34	126,528	—	185,109	9,218
Non-operating income	35	11,683	4,691	6,729	3,032
Less: Non-operating expenses	35	5,111	1,017	33,480	33,097
4. Total profit		844,055	147,152	703,213	680,990
Less: Income tax		74,380	—	92,055	80,893
Minority interests		82,012	—	97,976	—
Loss of subsidiaries not made up for		—	—	—	—
5. Net profit		687,663	147,152	513,182	600,097
Add: Undistributed profits at beginning of period		1,495,431	2,682,269	1,188,497	2,106,613
Other additions		—	—	—	—
6. Appropriated profit		2,183,094	2,829,421	1,701,679	2,706,710
Less: Statutory surplus reserve		—	—	—	—
Statutory public welfare reserve		—	—	—	—
Welfare and reward fund		—	—	—	—
7. Profit available for distribution to equity owners		2,183,094	2,829,421	1,701,679	2,706,710
Less: Dividends payables in respect of preferred shares		—	—	—	—
Discretionary surplus reserve		—	—	—	—
Dividends payables in respect of ordinary shares		—	—	—	—
Dividends for ordinary shares capitalized		—	—	133,459	133,459
8. Undistributed profit		2,183,094	2,829,421	1,568,220	2,573,251

Supplemental information:

Items	January–June 2005	January–June 2004
1. Gains on sale or disposal of business departments or associated companies	—	—
2. Losses arising from natural disasters	—	—
3. Total amount of profit increase (or decrease) as a result of changes in accounting policies	—	191,306
4. Total amount of profit increase (or decrease) as a result of changes in accounting estimates	—	(345,164)
5. Losses arising from debt restructuring	—	—
6. Others	—	—

Legal representative:

Hou Weigui

Person in charge of accounting function:

Wei Zaisheng

Person in charge of accounting department:

Shi Chunmao

Cash Flow Statements

(Prepared under PRC GAAP)

Unit: RMB'000

Items	January–June 2005	
	Consolidated	Company
1. Cash flow from operating activities		
Cash received from sale of goods or provision of services	8,545,665	7,628,769
Tax refund received	126,346	—
Cash received from other operating activities	155,247	133,715
Sub-total of cash inflow	8,827,258	7,762,484
Cash paid for the purchase of goods and services	7,144,897	7,355,030
Cash paid to and on behalf of employees	1,789,434	1,091,870
Taxes and levies paid	730,643	337,070
Cash paid in other operating activities	1,750,157	1,515,727
Sub-total of cash outflow	11,415,131	10,299,697
Net cash flow from operating activities	(2,587,873)	(2,537,213)
2. Cash flow from investing activities		
Cash received from disinvestment	331	331
Cash received from investment gains	42	—
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	5,494	5,460
Cash received from other investing activities	—	—
Sub-total of cash inflow	5,867	5,791
Cash paid for the acquisition of fixed assets, intangible assets and other long-term assets	366,141	313,245
Cash paid for investments	4,500	30,964
Cash paid for other investing activities	—	—
Sub-total of cash outflow	370,641	344,209
Net cash flow from investing activities	(364,774)	(338,418)
3. Cash flow from financing activities		
Cash received from investments	4,922	—
Cash received from borrowings	49,467	11,967
Cash received from other financing activities	—	—
Sub-total of cash inflow	54,389	11,967
Cash paid in repayment of debts	809,598	745,813
Cash paid in dividend distributions or interest payments	92,228	70,969
Cash paid in other financing activities	500	—
Sub-total of cash outflow	902,326	816,782
Net cash flow from financing activities	(847,937)	(804,815)
4. Effect of foreign exchange rate fluctuations on cash position	(283)	(138)
5. Net decrease in cash and cash equivalents	(3,800,867)	(3,680,584)

Legal representative:

Hou Weigui

Person in charge of accounting function:

Wei Zaisheng

Person in charge of accounting department:

Shi Chunmao

Cash Flow Statements (continued)

(Prepared under PRC GAAP)

Unit: RMB'000

Items	January–June 2005	
	Consolidated	Company
I. Investing and financing activities not involved in cash		
Debt conversion into capital	—	—
Convertible bonds maturing within one year	—	—
Fixed assets under finance lease	—	—
II. Net profit reconciled to cash flow from operating activities		
Net profit	687,663	147,152
Add: Minority interests	82,012	—
Provision for assets impairment	50,150	43,541
Depreciation of fixed assets	169,801	109,697
Amortisation of intangible assets	24,990	19,594
Amortisation of long-term prepaid expenses	14,564	2,626
Decrease in prepaid expenses	478	—
Increase in accruals	195,292	54,986
Losses on disposal of fixed assets, intangible assets and other long term assets	10	—
Losses on retirement of fixed assets	3,400	576
Finance expenses	73,613	68,450
Losses on investment	289	(256,272)
Deferred tax assets	24,822	—
Decrease in inventories	(20,477)	626,897
Decrease in amounts receivables in operation	(2,656,460)	(2,494,790)
Increase in amounts payables in operation	(1,238,020)	(859,670)
Others	—	—
Net cash flow from operating activities	(2,587,873)	(2,537,213)
III. Net decrease in cash and cash equivalents		
Balance of cash at end of period	3,797,356	2,782,581
Less: Balance of cash brought forward	7,598,223	6,463,165
Add: Cash equivalents at end of period	—	—
Less: Balance of cash equivalents brought forward	—	—
Net decrease in cash and cash equivalents	(3,800,867)	(3,680,584)

Legal
representative:

Hou Weigui

Person in charge of
accounting function:

Wei Zaisheng

Person in charge of
accounting department:

Shi Chunmao

Notes to the Financial Statements

(Prepared under PRC GAAP)

NOTE 1. COMPANY BACKGROUND

The Company is a joint-stock limited company jointly founded by Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited, China Precision Machinery Import & Export Shenzhen Company, Lishan Microelectronics Corporation, Shenzhen Zhaoke Investment Development Co., Limited, Hunan Nantian (Group) Company, Limited, Shaanxi Shunda Communications Corporation (now renamed Shaanxi Telecommunications Industrial Company), No.7 Research Institute of Post, Telegraphs & Telephones Ministry (郵電部第七研究所) (now renamed China Mobile Telecommunications No.7 Research Institute), Jilin Posts and Telecommunications Equipment Company and Hebei Telecommunications Equipment Company, Limited and incorporated through a public offering of shares to the general public. As approved under Document Zheng Jian Fa Zi (1997) No.452 and Document Zheng Jian Fa Zi No.453 issued by China Securities Regulatory Commission, on 6 October 1997, the Company issued within the network 58,500,000 ordinary shares with a par value of RMB1.00 per share through the Shenzhen Stock Exchange and issued 6,500,000 ordinary shares with a par value of RMB1.00 per share to its employees, at an issue price of RMB6.81 per share.

In 2003, Shenzhen Zhaoke Investment Development Co., Limited transferred all its shares in the Company to Shenzhen Gaotejia Venture Investment Co., Limited. The time of the share transfer was already more than three years from the date of establishment of the Company and was therefore in compliance with the applicable provision under the Company Law. In December 2003, Shenzhen Gaotejia Venture Investment Co., Limited transferred all its shares in the Company to Fortune Trust & Investment Co., Ltd.

On 11 November 1997, the Company was registered and established upon approval by Shenzhen Industrial and Commercial Administrative Bureau with registration no. of 4403011015176 (revised), and was issued a Corporate Business License (license no.: Shen Si Zi N35868). Scopes of operations: production of remote control switch systems, multi-media communications systems and communications transmission systems; provision of technical design, development, consultation and related services for the research, manufacture and production of mobile communications systems equipment, satellite communications, microwave communications equipment, beepers, computer hardwares and softwares, closed-circuit TVs, microwave communications, automated signal control, computer information processing, process monitoring systems, fire alarm systems; provision of technical design, development, consultation and related services for wireline and wireless communications projects of railways, mass transit railways, urban rail transit, highways, plants and mines, ports and terminals and airports (excluding restricted projects); purchase and sale of electronics devices and micro-electronics components (excluding franchised, state-controlled and monopolized merchandises); sub-contracting of communications and related projects outside the PRC and global tendering projects within the PRC, as well as import and export of the equipment and materials required by the aforesaid projects outside the PRC and sending labours and workers for carrying out the aforesaid projects outside the PRC; technical development and sale of electronics systems equipment (excluding restricted items and franchised, state-controlled and monopolized merchandises); operations of import and export businesses (implemented in accordance with the provision under the certificate of qualifications approved and issued by Shenzhen Bureau of Trade and Development); specialised sub-contracting of telecommunications projects.

Notes to the Financial Statements

(Prepared under PRC GAAP)

On 18 November 1997, the 58,500,000 ordinary shares publicly issued by the Company to the general public were listed and traded on the Shenzhen Stock Exchange.

On 11 September 1998, as approved by Document Shen Zheng Ban Fu (1998) No.72 issued by the Securities Administration Office of Shenzhen, the Company increased its capital by a total of 75,000,000 shares by way of an issue of 3 shares transferred from its capital surplus reserves as at 30 June 1998 for every 10 shares. Thereupon the Company's registered capital was increased to RMB325,000,000.

On 27 May 1999, pursuant to the consent under Document Shen Zheng Ban Zi (1999) No.78 issued by the Securities Administration Office of Shenzhen and the approval under Document Zheng Jian Gong Si Zi (1999) No.42 issued by China Securities Regulatory Commission, the Company placed 19,500,000 ordinary shares to the public shareholders. The placing was completed on 18 August 1999. Thereupon the Company's registered capital was increased to RMB344,500,000.

On 20 May 2000, pursuant to the approval at the Company's shareholders' meeting, the Company increased its capital by a total of 68,900,000 shares by way of an issue of 2 shares transferred from its capital surplus reserves as at 31 December 1999 for every 10 shares. Thereupon the Company's registered capital was increased to RMB413,400,000.

On 20 March 2001, as approved under Document Zheng Jian Gong Si Zi (2001) No.25 issued by China Securities Regulatory Commission, the Company issued an additional of 50,000,000 ordinary shares to the public at an issue price of RMB32.70 per share. Thereupon the Company's registered capital was increased to RMB463,400,000.

On 16 October 2001, pursuant to the approval at the Company's shareholders' meeting, the Company increased its capital by a total of 92,680,000 shares by way of a bonus issue on the basis of 2 shares for every 10 shares then held based on its share capital as at 30 June 2001. Thereupon the Company's registered capital was increased to RMB556,080,000.

On 25 April 2003, pursuant to a resolution passed at the Company's shareholders' meeting, the Company increased its capital by a total of 112,216,000 shares by way of an issue of 2 shares transferred from its capital surplus reserves as at 31 December 2002 for every 10 shares. Thereupon the Company's registered capital was increased to RMB667,296,000.

On 17 May 2004, pursuant to a resolution passed at the Company's shareholders' meeting, the Company increased its capital by a total of 133,459,200 shares by way of a bonus issue on the basis of 2 shares for every 10 shares then held based on its share capital as at 31 December 2003. Thereupon the Company's registered capital was increased to RMB800,755,000. The alteration formalities for industrial and commercial registration have been completed.

On 9 December 2004, pursuant to a resolution adopted at the Company's second temporary shareholders' meeting and the provision under the revised Articles of Association, and upon approval under Document Guo Zi Gai Ge [2004] No.865 issued by State-owned Assets Supervision and Administration Commission of the State Council and verification and approval under Document Zheng Jian Guo He Zi [2004] No.38 issued by China Securities Regulatory Commission, the Company made

Notes to the Financial Statements

(Prepared under PRC GAAP)

an overseas public offering of 160,151,040 overseas listed foreign invested shares (H Shares), of which 158,766,450 new shares were issued by the Company and 1,384,590 shares were sold by the Company's state-owned legal person shareholders. The Company's registered capital after alteration was RMB959,522,000. As at 10 January 2005, the proceeds raised by the Company amounted to HKD3,523,323,000 (equivalent to RMB3,734,722,000) (translated at the fixed exchange rate for HKD1 to RMB1.06). After deducting the expenses related to the issue amounted to RMB161,685,000 as well as RMB30,859,000, being the amount went to the National Social Insurance Fund generated from the reduction in the number of state-owned legal person shares held by the legal person holders of state-owned shares, the Company actually injected an additional capital of RMB3,542,178,000 (all being monetary funds), of which RMB158,767,000 were increase of share capital, while RMB3,383,411,000 were credited to capital reserves. Accordingly, the Company's registered capital increased to RMB959,522,000 and the alteration formalities for industrial and commercial registration have been completed.

NOTE 2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

(1) The financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises and the "Accounting System for Business Enterprises" as promulgated by the Central Government of the People's Republic of China.

(2) Accounting year:

The Company adopts the calendar year as its accounting year, i.e., from 1 January to 31 December each year.

(3) Functional currency:

The reporting currency of the Company for accounting is Renminbi.

(4) Recording basis and measurement principle:

The financial statements of the Company are prepared on an accrual basis. Assets are initially measured at actual costs at the time of acquisition.

(5) Foreign currency transactions:

Transactions conducted in foreign currencies are translated into Renminbi at the median exchange rates between Renminbi and other currencies announced by the People's Bank of China on the first day of the first month of the quarter. If the range of exchange rate fluctuation during the quarter is over 3%, exchange rates adopted for accounting will be adjusted in the month in which the exchange rate fluctuation takes place.

(6) Translation of financial statements denominated in foreign currency:

Balance sheet items are translated into Renminbi at the mid-point rate of the market exchange rates prevailing at the balance sheet date. Owner's equity items other than "undistributed profit" are translated into Renminbi at the market exchange rates prevailing at the time when the items arise. The item "undistributed profits" is stated at the amount of such item as set out in the statements of income distributions after translation. Differences in the aggregate amount of the

Notes to the Financial Statements

(Prepared under PRC GAAP)

items under assets and liabilities and shareholders' equity after the translations are reflected under the "translation differences of foreign currency statements" added after "undistributed profit" in the balance sheets. The balance at the beginning of the year is stated at the amount set out in the previous year's balance sheets after translation.

Items reflecting amounts incurred as set out in the profits and the statements of income distributions are translated into Renminbi at the average exchange rates prevailing during the accounting period. "Net profit" in the statements of income distributions is stated at the amount of such item as set out in the profits statement after translation. The item "undistributed profit at the beginning of the year" in the statements of income distributions is stated at the amount set out under the previous year's "undistributed profits" at the end of the period after translation. The item "undistributed profits" in the statements of income distributions is calculated and stated at the amounts set out under each of the other items in the statements of income distributions after translation. Actual amounts recorded in the previous year are stated at the amounts as set out in the profits statement and the statements of income distributions for the previous reporting period after translation.

(7) Recognition of cash equivalents:

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash with short maturities of within three months when acquired and that are subject to an insignificant risk of change in value, including short-term bond investment available for circulation in the securities market with maturities of within three months when acquired.

(8) Short-term investments:

Short-term investments are recognised by the actual consideration paid when acquired less any cash dividends or interests declared to be distributed and any cash dividends or interests received are deducted from the investment costs.

Short term investments at the balance sheet date are valued at the lower of investment costs and market value for the provision of impairment of short-term investments.

(9) Recognition of bad debts:

Recognition of bad debts: Bad debt is determined as such when the debtor is bankrupt or dead, and the debt is still unrecoverable after repayment by the bankrupt's property or the deceased's estate; or the debtor fails to repay the overdue debt which is still unrecoverable after more than three years.

Bad debts are recognised using the allowance method pursuant to which provision for bad debts is made for period-end balance of accounts receivable (less amounts due from related parties) by ageing analysis method and to make provision for bad debts or expenses against accounts receivables and other receivables in different percentages according to the financial and cash flow status of the debtors; carrying balance of prepayments that is expected to be uncollectible is transferred to other receivables and provision for bad debts is made according to the nature and months overdue except for debtors recognised individually according to their financial position and cash flow.

Notes to the Financial Statements

(Prepared under PRC GAAP)

Provision for bad debts of accounts receivables are calculated on the net amount of accounts receivables at period end (less amounts due from related parties) after deducting amounts that are proved to be collectible by reliable evidences on the following basis:

Ageing	Percentage of provision
1-6 months	—
6-12 months	15%
12-18 months	50%
18-24 months	75%
Over 24 months	100%

Provision of expense-off for other receivables is provided on the following basis:

Ageing	Percentage of provision	Remark
1-2 months	—	
Over than 2 months	100%	Applicable to other receivables arising from domestic operations
2-3 months	—	Applicable to other receivables arising from overseas operations
3-4 months	58%	Applicable to other receivables arising from overseas operations
4-5 months	75%	Applicable to other receivables arising from overseas operations
5-6 months	92%	Applicable to other receivables arising from overseas operations
Over 6 months	100%	Applicable to other receivables arising from overseas operations

Notes to the Financial Statements

(Prepared under PRC GAAP)

Provision for bad debts on prepayments is provided on the following basis:

Ageing	Percentage of provision	Remark
1–6 months	—	Applicable to all prepayments
6–12 months	—	Applicable to prepayments in purchasing of fixed assets
6–12 months	50%	Applicable to prepayments in purchasing of raw materials
12–24 months	75%	Applicable to prepayments in purchasing of raw materials
12–24 months	50%	Applicable to prepayments in purchasing of fixed assets
Over 24 months	100%	Applicable to all prepayments

As to those accounts receivables that are uncollectible or believed unlikely to be collectible as proved by conclusive evidences, specific provision for bad debts is made against those accounts receivable.

(10) Inventories:

Inventories include raw materials, work-in-progress, finished goods and materials sub-contracted for processing. All inventories are recorded at their actual costs upon acquisition and recognised by using the weighted moving average method when issued. Inventories are valued by the perpetual inventories system. Low-value consumables are amortised using the “one-off amortisation method” upon use.

Provision for inventories is recognised at the end of accounting period. When recognising the provision for inventories, inventories are further classified into categories of system products and categories of terminal products (including raw materials, work-in-progress, finished goods, etc). Cost and net realizable value of inventories are normally measured by categories under which the provision for inventories is made.

At the end of the period, carrying values of all mouldy stocks or expired stocks with no transfer value or stocks that are no longer required in production process as well as stocks that are sufficiently proved to be of no use value and transfer value are transferred to gains or losses for the current period for reducing the amount of provision for inventories.

Notes to the Financial Statements

(Prepared under PRC GAAP)

(11) Long-term investments:

(1) *Long-term equity investments*

a. Valuation of long-term equity investments

Long-term equity investments are valued at the initial investment cost at the time of acquisition.

b. Difference in equity investments

Long-term equity investments are valued at the initial investment cost when it is accounted for under the equity method. Difference in equity investments refers to the difference between the initial investment cost and the owner's equity in the investee company as well as the difference between the investment cost and the owner's equity in the investee company where equity investments is accounted for under the equity method instead of the cost method. Their respective differences are treated as follows:

Where the initial investment cost exceeds the owner's equity in the investee company, the difference is amortised by equal installments over a period of not more than 10 years;

Where the initial investment cost is lower than the owner's equity in the investee company which was formed before 10 April 2003, the difference is included in the difference of equity investments and amortised by equal installments over a period of not less than 10 years; and

Where the initial investment cost is lower than the owner's equity in the investee company which was formed after 10 April 2003, the difference is recorded as capital reserve-provision for equity investments.

c. Recognition of return on investments

The cost method is used in accounting for long-term equity investments where the parent company has no control or common control or significant influence over the investee company. Investments in the investee company in which the parent company holds more than 20% (including 20%) of the equity interest, or over which the parent company exerts significant influence notwithstanding its investments accounted for less than 20% of the equity interest, are accounted for under the equity method.

Where the cost method is used in accounting, the return on investments is recognised when cash dividends are declared to be distributed by the investee company, provided that the return on investments is calculated to the extent of the appropriated amount of accumulated net profit so received, which are generated after the investee company accepted investment by the parent company. Any portion of the cash dividends declared to be distributed by the investee company to the parent company in excess of the aforesaid amount is treated as write back of initial investment cost to reduce the carrying value of investments; Where the equity method is used in accounting, on the basis of the net gains or losses generated after the acquisition of a stake in the investee company, investment gains or losses are recognised in the proportion of any

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net gains realised or net losses incurred by the investee company for the period that shall be enjoyed or shared as at the end of the accounting period and adjustment is made to the carrying value of the long-term equity investment. Upon disposal of a long-term equity investment, the difference between the carrying amount of the investment and net disposal proceeds shall be treated as gains or losses on investment for the period.

(2) *Long-term bond investments*

a. Valuation of long-term bond investments

Investment in bonds is valued at the actual cost at the time of acquisition.

b. Amortisation of premium or discount of long-term bond investments

Premium or discount of long-term bond investments refers to the difference between the actual cost and the nominal value of the bonds. The premium or discount of bonds is amortised on a straight-line basis within the bond-holding period upon confirmation of related income from bond interest.

c. Recognition of return on long-term bond investments

Income from bond interest is calculated and recognised at the nominal value and nominal interest rates for the period. Income for the current period is recognised at the adjusted amount after the amortisation of premium or discount of investment in bonds on a straight-line basis. Interest receivables of other bonds investments calculated for the period is recognised as return on investments for such period. Upon disposal of a long-term bond investment, the difference between the net disposal proceeds and carrying amount of the investment shall be treated as gains or losses on investments for the period.

(3) *Provision for impairment of long-term investments*

At the end of the period, examination is made for each of the long-term investments measured at the lower of the book value and the recoverable amount. Provision for impairment of long-term investments shall be made for each individual item in accordance with the difference of the recoverable amount less than the book value of the long-term investments due to declining market value or the worsening of the business operation in the investee company.

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(12) Fixed assets and accumulated depreciation:

Fixed assets refer to physical assets of higher unit value with useful lives of more than one year. Fixed assets are valued at actual cost. Depreciation of fixed assets is calculated on a straight-line basis by equal installments with the annual depreciation rates being determined by the type, historical cost, estimated useful lives, and residual value (5% of the historical cost) of the fixed assets as follows:

Asset type	Useful lives	Annual depreciation rates
Buildings (excluding temporary plants)	30 years	3.17%
Buildings — temporary plants	3 years	31.67%
General equipment (excluding electronic equipment)	10 years	9.5%
General equipment — electronic equipment	5 years	19%
Specific equipment	5 years	19%
Motor vehicles	10 years	9.5%
Other equipment	5 years	19%

At the end of the period, in the case that the recoverable value of fixed asset is lower than its carrying value by virtue of backward technology, damages, or being left unused for a long period of time, provision for impairment of fixed asset shall be made in accordance with the difference between its recoverable value and carrying value and shall be included in the gains or losses for the period. Provision for impairment of fixed asset is made for each individual asset.

(13) Construction in progress:

Construction in progress is valued using the actual cost method. Until such time as the assets are completed and put into operational use, construction in progress is recognised as a fixed asset, and the capitalisation of interest shall cease thereupon.

Upon the overall examination at the end of the period, provision for impairment of construction in progress shall be made in the event that an impairment of construction-in-progress has occurred with plain evidences to indicate that (1) construction has stopped already and is estimated not to be restarted in the next 3 years; (2) economic return on the construction in progress is ultimately uncertain with inferior construction quality and backward technology; (3) impairment has occurred under other circumstances. Such provision shall be determined at the difference between the carrying value of a particular construction-in-progress over its net realizable value.

(14) Intangible assets

Intangible assets are valued at the actual cost at the time of acquisition.

Intangible assets are amortised by equal installments over its estimated useful lives commencing from the month for the acquisition of the intangible assets which shall be accounted for in the expenses. Provided the estimated useful lives exceeds the beneficial period stipulated by the related contract or the effective period stipulated by applicable laws, the amortisation period for the intangible assets shall be determined not exceeding the shorter of the beneficial period and

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the effective period. If there is no explicit stipulation as to the beneficial period in the related contract or the effective period under applicable laws, the amortisation period shall not exceed 10 years.

Upon the overall examination at the end of the period, provision for intangible assets shall be made in the event the recoverable amount of the intangible assets is lower than its carrying value under the following circumstances: (1) the intangible asset has been replaced by other new technologies, exerting material negative impact on its economic return to the Company; (2) market price of an intangible asset for the period drops sharply and that a recovery is not expected to be seen during the rest of the amortisation period; (3) an intangible asset which legal protection period has expired but still retains some values in use; (4) impairment has occurred under other circumstances with plain evidences. Such provision shall be determined by the difference between the carrying value of a particular intangible asset over its realizable amount.

(15) Long-term prepaid expenses:

Pre-operating expenses: to be expensed on the first month of production and operation of the company.

Other long-term prepaid expenses: to be accounted for on the actual amount incurred and amortised by equal installments over the beneficial period of the project. Where no economic return is expected in the accounting period ahead, all remaining value of long-term prepaid expenses shall be accounted for over the period.

(16) Recognition of revenue:

Sale of communications systems construction: when evidence exists that the total revenue and total cost can be measured reliably, and the amounts related to the transactions will flow to the Company, the operating revenue is recognised and the cost is carried forward correspondingly by estimating the progress of completion based on the stage of completion of the contract activities or the actual cost incurred under the construction contract as a percentage of the estimated total cost of the contract.

Sale of goods: operating revenue is recognised at one or several times when the significant risk in connection with the ownership of the product and the payment have been transferred to the buyer so that the Company no longer has custody and control over the product; the income from the sale or the voucher of the payment has been received, and that the cost in relation to the product sale can be measured reliably.

Supply of labour service: the revenue from labour service is recognised when the supply of labour service has been completed within one accounting year since its commencement; when evidence exists that the total revenue and total cost of labour service can be measured reliably, the amounts related to the transactions will flow to the Company, and the stage of completion of the labour service can be confirmed reliably, even the commencement and completion of the labour service spans over one accounting year, the revenue can be recognised according to the percentage of completion.

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(17) Recognition of anticipated liabilities

Obligations related to contingencies that fulfil all the following conditions are recognised as liabilities: such obligation represents an obligation currently undertaken by the Company; it is probable that performance of such obligation will lead to outflow of economic benefits from the Company; the amount of such obligation can be measured reliably.

(18) Accounting of income tax:

The Company adopts tax-effect accounting method and adopts the liability method in case of changes in the income tax rates.

(19) Basis of consolidation:

Consolidated financial statements of the Company are properly prepared in accordance with the provisions under the Provisional Regulations Governing Consolidated Financial Statements and Reply to the Request on the Scope of Financial Statements Consolidation Document Cai Kuai Er Zi (96) No.2 formulated by the Ministry of Finance, whereby consolidation is prepared by consolidating the amounts under the respective items based on the individual financial statements and other related information of the Company and of the respective units included in the scope of consolidation. All the material intra-group transactions and balances have been eliminated on consolidation. Minority interests are calculated and stated respectively.

NOTE 3: TAXATION

The principal tax and tax rate applicable to each unit of the consolidated financial statements is as follows:

Item	Basis of calculation	Tax rate
Value-added tax	Sales revenue for domestic produced products	17%
Value-added tax	Maintenance of equipment	17%
Business tax	Leasing revenue	3%, 5%
Urban maintenance and construction tax	VAT, business tax	7%, 1%
Education surcharge	VAT, business tax	3%
Corporate income tax ^{*1}	Business tax	7.5%, 15%, 33%
Individual income tax	Taxable income	Excessive progressive rate

*1 The Company was registered in Shenzhen Special Economic Zone and the applicable corporate income tax rate is 15%.

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Yan Jian Mian (2005) No. 004) issued by Shenzhen State Tax Bureau, it was agreed that ZTE Microelectronics Technology Co. Ltd., as an enterprise, is entitled to corporate income tax exemption in the first and second profitable year and 50% reduction from the third to fifth year. The current year is the second profitable year and is exempted from corporate income tax.

Wuxi Zhongxing Optoelectronics Technologies Company, Limited was registered at Wuxi State's High-tech Industrial Development Zone, which is subject to corporate income tax rate of 15%.

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Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Nan Jian Mian (2005) No. 0098) issued by Shenzhen Nanshan State Tax Bureau, it was agreed that Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited, as a service enterprise in the special zone, was entitled to corporate income tax exemption in the first profitable year and a 50% reduction in corporate income tax from the second to third year. It has not reached its first profitable year, and is therefore entitled to corporate income tax exemption.

Pursuant to the regulations under Document Ke Gao (2002) No. 21 issued by the Science and Technology Department of Anhui, the Finance Department of Anhui, the Regional Tax Bureau of Anhui and the State Tax Bureau of Anhui, it was agreed that Anhui Wantong Posts and Telecommunications Company, Limited, is entitled to the corporate income tax preferential treatment as enjoyed by high-tech enterprises. The corporate income tax is subject to refund and the tax rate and refund rate of which are 33% and 18% respectively, and the actual tax rate was 15%.

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Nan Zi (2004) No. 0034) issued by the Nanshan State Tax Bureau in Shenzhen, it was agreed that Shenzhen ZTE Software Company, Limited, as a software enterprise, was entitled to corporate income tax exemption in the first and second profitable year and a 50% reduction in corporate income tax from the third to fifth year. The current year is the third profitable year and is subject to corporate income tax rate of 7.5%.

Yangzhou Zhongxing Mobile Telecom Equipment Co., Limited and Guangdong New Pivot Technology & Service Company, Limited are subject to corporate income tax rate of 33%.

ZTE Mobile Tech Co., Ltd., Shenzhen Guoxing Electronics Development Company Limited, Shenzhen Zhongxing Special Equipment Company, Limited, ZTE Integration Telecom Ltd., Shanghai Zhongxing Telecom Equipment Technology & Service Company, Limited, Shenzhen Changfei Investment Company, Limited and Shenzhen Zhongxing Mobile Telecom Equipment Co., Ltd. are subject to corporate income tax rate of 15%.

NOTE 4. MAJOR SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES

1. Particulars of subsidiaries controlled by the Company and jointly-controlled entities and scope of consolidation

Full name of subsidiaries and jointly-controlled entities	Place of registration	Registered capital ('000)	Percentage of equity interests controlled by the Company			Investment by the Company ('000)	Principal activities	Incorporated in consolidation
			Direct	Indirect	Effective			
ZTE Kangxun Telecom Co., Ltd.	Shenzhen	RMB50,000	90%	—	90%	RMB45,000	Manufacture of electronics products and its parts (excluding restricted items)	Yes
ZTE Microelectronics Technology Co. Ltd.	Shenzhen	RMB15,000	—	90%	90%	RMB13,500	Design, manufacture and sale of integrated circuits	Yes
Zhongxing Telecom Pakistan (Private) Limited	Islamabad, Pakistan	PKR37,919	93%	—	93%	USD654.7	Assembly and manufacture of digital remote control switch	Yes
Shenzhen Zhongxing Mobile Telecom Equipment Co., Ltd.	Shenzhen	RMB10,000	90%	10%	100%	RMB10,000	Research, manufacture and sale of CDMA digital mobile communications system equipment and related products	Yes

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Full name of subsidiaries and jointly-controlled entities	Place of registration	Registered capital ('000)	Percentage of equity interests controlled by the Company			Investment by the Company ('000)	Principal activities	Incorporated in consolidation
			Direct	Indirect	Effective			
ZTE IC Design Co., Ltd.	Shenzhen	RMB64,000	40%	—	40%	RMB34,400	Design, development, manufacture and operation of all kinds of integrated circuits and related electronics application products	No
Yangzhou Zhongxing Mobile Telecom Equipment Co., Limited	Yangzhou	RMB6,000	65%	—	65%	RMB3,900	R&D, manufacture and sale of electronics, computer and communications products	Yes
ZTE Mobile Tech Co., Limited	Shenzhen	RMB33,333	95%	—	95%	RMB31,666	Technical development and sale of communications products; manufacture of handset batteries, hands-free ear pieces; manufacture of handset chargers	Yes
Congo-Chine Telecom S.A.R.L.	The Democratic Republic of Congo	USD9,800	51%	—	51%	USD5,000	Construction of telephone network in Congo, provision of telecom services and manufacture of communications equipment	Yes
Nanjing Zhong Xing Software Development Technology Co., Ltd.	Nanjing	USD7,231	81%	—	81%	RMB25,560	Development, manufacture and sale of software products, communications equipment, data equipment and provision of related services	Yes
Shenzhen Zhongxing Software Company, Limited	Shenzhen	RMB50,000	90%	—	90%	RMB45,000	Development, manufacture and sale of all kinds of communications equipment system drivers, software for service sector, and provision of technical consultation	Yes
Shenzhen Guoxing Electronics Development Company, Limited	Shenzhen	RMB13,000	90%	10%	100%	RMB33,000	Purchase and sale of electronics components; domestic businesses, supply and sale of materials; promotion of a variety of industries	Yes
Wuxi Zhongxing Optoelectronics Technologies Company, Limited	Wuxi	RMB10,000	65%	—	65%	RMB6,500	Development of optoelectronics technology and manufacture and sale of related products and provision of technical services	Yes
Shenzhen Force Science and Technology Company, Limited	Shenzhen	RMB3,000	—	80%	80%	RMB2,400	Development of optoelectronics technology and manufacture and sale of related products and provision of technical services	Yes
WuXi KaiEr Science and Technology Company, Limited	Wuxi	RMB10,000	—	35%	35%	RMB3,500	Development, manufacture and sale of camera lenses for mobile phone	No
Anhui Wantong Posts and Telecommunications Company, Limited	Hefei	RMB22,214.4	51%	—	51%	RMB15,697.7	Manufacture of communications wireline equipment and accessories, PDF and switch equipment, manufacture and installation of towers, and design and installation of communications projects	Yes
Anhui Wantong Information System Integration Company, Limited	Hefei	RMB3,000	—	51%	51%	RMB1,530	Design and installation of communications projects	Yes
Anhui Wantong Tower Installation Company, Limited	Hefei	RMB2,000	—	90%	90%	RMB1,800	Installation of towers	Yes
ZTE (H.K.) Limited	Hong Kong	HKD50,000	100%	—	100%	HKD50,000	Procurement and sale of communications products and provision of technical services	Yes
Bestel Communications Limited	Republic of Cyprus	CYP300	—	50%	50%	CYP150	Sale of communications products and provision of after-sale services	No
ZTE Portugal Projectos de Telecomunicações Uripessoal, Lda	Portugal	EUR50	—	100%	100%	EUR50	Sale of communications products and provision of after-sale services	Yes
Beijing Zhongxing Telecom Ltd.	Beijing	RMB5,000	50%	—	50%	RMB2,500	Sale of communications equipment (excluding radio transmitter), electronic computers and related external devices, and provision of technical consultation services	No*
Beijing Zhongxing Intelligent Transportation Systems Ltd.	Beijing	RMB5,000	—	70%	35%	RMB3,500	Development, consultation, and assignment of intelligent transportation technology and provision of related services and training	No
ZTE (USA) Inc.	Edison, United States of America	USD20	100%	—	100%	USD650	Sale of communications products	Yes

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Full name of subsidiaries and jointly-controlled entities	Place of registration	Registered capital ('000)	Percentage of equity interests controlled by the Company			Investment by the Company ('000)	Principal activities	Incorporated in consolidation
			Direct	Indirect	Effective			
Shenzhen Zhongxing Special Equipment Company, Limited	Shenzhen	RMB1,000	54%	—	54%	RMB540	Technical development, services, consultation and purchase and sale of communications products	Yes
Telrise (Cayman) Telecom Ltd.	Cayman Islands	USD50	52.85%	—	52.85%	USD2,550	R&D of soft-switch technology	Yes
Telrise INC.	Cayman Islands	USD1,609	—	100%	100%	USD1,609	R&D of soft-switch technology	Yes
Telrise Nanjing Telecom Limited	Nanjing	USD100	—	100%	100%	USD100	R&D of soft-switch technology	Yes
ZTE (UK) Ltd.	London, United Kingdom	GBP604	51%	—	51%	USD372.3	Sale of communications products and provision of after-sale services and technical support	Yes
ZTE Do Brasil Ltda.	Brazil	BRL6,500	100%	—	100%	USD900	Sale of communications products and provision of after-sale services and technical support	Yes
ZTE Holdings (Thailand) Co., Ltd	Thailand	THB100	49%	—	49%	THB49	Investment holding	Yes**
ZTE (Thailand) Co., Ltd	Thailand	THB2,000	49%	51%	100%	THB980	Sale of communications products and provision of after-sale services and technical support	Yes
ZTE Corporation Mexico S. DE R. L DE C.V.	Mexico	USD5	100%	—	100%	USD28.115	Sale of communications products and provision of after-sale services and technical support	Yes
ZTE Integration Telecom Ltd.	Shenzhen	RMB55,000	75%	5%	80%	RMB41,250	Research and manufacture, production and sale of digital integrated system products and provision of related consultation services	Yes
ZTEIT USA Inc.	United States of America	USD950	—	100%	100%	USD475	Design and development of all kinds of communications products	Yes
ZTE-Communication Technologies, Ltd.	Russia	USD760	100%	—	100%	USD760	Sale of communications products and provision of after-sale services and technical support	Yes
ZTE Wistron Telecom AB	Sweden	SEK1,000	100%	—	100%	USD3,137.4	Operation of telecommunications related businesses as R&D base and technical support platform of the sector	Yes
Shenzhen Changfei Investment Company, Limited	Shenzhen	RMB30,000	51%	—	51%	RMB15,300	Investment and promotion of industries, and sale of electronics and communications parts and components	Yes
Shenzhen Lead Communications Company, Limited	Shenzhen	RMB10,000	—	62.5%	62.5%	RMB6,250	Sale of electronics products, communications products, apparatus and instruments and related accessories	Yes
Shenzhen Ruide Electronic Industrial Company, Limited	Shenzhen	RMB8,700	—	63.22%	63.22%	RMB5,500	Manufacture and sale of handset accessories; sale of electronics products; operation of import/export businesses	Yes
Shenzhen Kangquan Electromechanical Company, Limited	Shenzhen	RMB16,000	—	57.5%	57.5%	RMB9,200	Manufacture and sale of handset case and accessories; purchase and sale of electromechanical products; in-house operation of import/export businesses	Yes
Shanghai Xingfei Science and Technology Company, Limited	Shanghai	RMB1,000	—	80%	80%	RMB800	Four skill services of the electronics products sector, manufacture, sale and after-sale services of electronics products, and corporate management consultation (subject to license where a license is required)	Yes
Shenzhen Zhongxing Xinyu FPC Company, Limited	Shenzhen	RMB11,000	—	9%	9%	RMB2,500	Development, manufacture and sale of single-layered, double-layered, multi-layered and rigid-flexible relaxable printed integrated circuits; import/export of goods and technology (excluding items prohibited and restricted under the laws, constitutions and as decided by the State Council)	No

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Full name of subsidiaries and jointly-controlled entities	Place of registration	Registered capital ('000)	Percentage of equity interests controlled by the Company			Investment by the Company ('000)	Principal activities	Incorporated in consolidation
			Direct	Indirect	Effective			
Shenzhen Weigao Semiconductor Company, Limited	Shenzhen	RMB10,000	—	40%	40%	RMB4,000	Development, design and sale of semi-conductor circuit package; domestic business and supply of materials and resources (excluding franchised, state-controlled and monopolized merchandises and restricted items); promotion of industries (separate declaration is required for specific items)	No
Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited	Shenzhen	RMB50,000	90%	10%	100%	RMB50,000	Technical development of computer networks, software, electronics equipment and communications products; domestic supply and sale of materials and resources; information consultancy	Yes
Shanghai Zhongxing Telecom Equipment Technology & Service Company, Limited	Shanghai	RMB10,000	51%	—	51%	RMB5,100	R&D of communications technology, design, research, development, manufacture and sale of software and hardware for communications products and provision of related technical services	Yes
Guangdong New Pivot Technology & Service Company, Limited	Guangzhou	RMB5,000	90%	—	90%	RMB4,500	Development, design and integration of computer software and hardware and data equipment, and sale and technical assignment of related products and provision of related services	Yes
Beijing Zhongxing Yuanjing Technology Co., Ltd.	Beijing	RMB10,000	30%	—	30%	RMB3,000	Development and research, and manufacture of data centre and metropolitan/campus networks integrated core software products	No
SunTop Technologies Ltd.	Cayman Islands	USD50	26.54%	—	26.54%	USD2,866.5	Within the scope permitted under the laws of Cayman Islands	No
Closed Joint Stock Company TK Mobile	Tadzhikistan	USD4,000	51%	—	51%	RMB16,870.8	Manufacture of CDMA800 mobile voice and related value-added services, maintenance of CDMA telecom networks and provision of consultation services	Yes
ZTE Kangxun Telecom Company India (Private) Ltd.	India	USD22.2	100%	—	100%	RMB1,654	Assembly and integration of telecommunications systems equipment and terminal equipment in India; investment in and establishment of local manufacturing joint ventures	Yes
ZTE ROMANIA SRL	Romania	USD100	100%	—	100%	RMB827	Sale and marketing of Company's products in Romania and provision of related engineering, after-sale services, technical support, consultation and training	Yes
ZTE MALAYSIA CORPORATION SDN. BHD.	Malaysia	USD60	100%	—	100%	RMB496.2	Sale and marketing of the Company's products in Malaysia and provision of related engineering, after-sale services, technical support, consultation and training	Yes
ZiMax (Cayman) Holding Ltd.	Cayman Islands	USD5,500	100%	—	100%	RMB45,485	R&D investment in all kinds of communications products	Yes
KAZNURTEL Limited Liability Company	Kazakhstan	USD3,000	49%	—	49%	RMB1,013.075	Manufacture and sale of telecommunications equipment and provision of related technical support, construction, after-sale services, training and consultation; installation and construction of CDMA450M/WLL and provision of related telecommunications services and value-added services	No

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Full name of subsidiaries and jointly-controlled entities	Place of registration	Registered capital ('000)	Percentage of equity interests controlled by the Company			Investment by the Company ('000)	Principal activities	Incorporated in consolidation
			Direct	Indirect	Effective			
Shenzhen Hongde Battery Company, Limited	Shenzhen	RMB10,000	—	75%	75%	RMB7,500	Manufacture and sale of batteries, sale of battery raw materials and electronics products (excluding franchised, state-controlled and monopolized merchandises and restricted items); operate import and export business	Yes
ZTE (HK) Ltd. Saudi Arabia	Saudi Arabia	SAR2,000	—	100%	100%	USD534.76	Sale of communications products, provision of after-sale services and technical support	Yes
ZTE NIGERIA INVESTMENT LTD.	Nigeria	NGN5,000	—	100%	100%	USD540	Import and export of raw materials, manufacture, testing, sale, installation, development, user training and after-sale services of telecommunications products	Yes
ZTE Sweden AB	Sweden	SEK1,000	—	100%	100%	USD360	Sale of communications products, provision of after-sale services and technical support	Yes
PT ZTE INDONESIA	Indonesia	USD200	99.5%	0.5%	100%	USD200	Sale of communications products, provision of after-sale services and technical support	Yes
ZTE (Australia) Pty Ltd.	Australia	USD200	—	100%	100%	USD200	Sale of communications products, provision of after-sale services and technical support	Yes

* During the period, the Company did not exercise effective control over Beijing Zhongxing Telecom Ltd. which had not been incorporated in the consolidated financial statements.

** The Company holds a 49% stake in ZTE Holdings (Thailand) Co. Ltd. However, pursuant to the articles of the company, another shareholder of the company holds preference shares only and has no operation or administrative rights over the company. Pursuant to “Reply to the Request on the Scope of Financial Statements Consolidation Document” Cai Kuai Er Zi (1996) No.2 issued by the Ministry of Finance, the company has been incorporated in the consolidation of the Company based on the principle of effective control.

2. Changes in the scope of consolidation during the period

Name of company	Change	Reason
Shanxi Zhongxing Telecom Equipment Company, Limited	*1 Excluded	Deregistration
ZTE Future Tel Co., Ltd.	*2 Excluded	Transferred
ZTE IC Design Co., Ltd.	*3 Excluded	Reduced percentage of shareholding
Shenzhen Wangde Battery Company, Limited	*4 Included	Newly incorporated
ZTE (HK) Ltd. Saudi Arabia	*5 Included	Newly incorporated
ZTE NIGERIA INVESTMENT LTD.	*6 Included	Newly incorporated
ZTE Sweden AB	*7 Included	Newly incorporated
PT ZTE INDONESIA	*8 Included	Newly incorporated

*1 In May 2005, the Board of the Company agreed to deregister Shanxi Zhongxing Telecom Equipment Company, Limited (“Shanxi Zhongxing”) and invested the related assets in Xian Zhongxing Jingcheng Communications Company, Limited (“Xian Zhongxing”). In April 2005, the deregistration procedure of Shanxi Zhongxing was completed and in June 2005, the capital increase of Xian Zhongxing was also completed.

*2 In May 2005, the Board of the Company agreed to transfer shareholding of ZTE Future Tel Co., Ltd. and the related transfer procedure was completed.

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- *3 In March 2005, the board of directors of the Company approved the capital increase and change in shareholding of ZTE IC Design Co., Ltd. The Company transferred 17.6% shareholding for a consideration of RMB4.40 million, which was invested in the company as additional capital. The Company held 40% of ZTE IC Design Co., Ltd following the completion of its capital increase and change in shareholding in May 2005.
- *4 In January 2005, the Company's subsidiaries, Shenzhen Changfei Investment Company, Limited and Shenzhen Ruide Electronic Industrial Company, Limited, jointly contributed RMB7.5 million in establishing Shenzhen Hongde Battery Company, Limited and held 75% of its shares. The principal activities of the company are the manufacture and sale of batteries and the sale of battery raw materials and electronic products.
- *5 In May 2005, the Board of the Company agreed to the contribution of SAR2 million by ZTE (HK) Ltd. to establish ZTE (HK) Ltd. Saudi Arabia in Saudi Arabia and held 100% of its shares. The principal activities of the subsidiary are the sale of communications products and provision of after-sale services and technical support.
- *6 In June 2005, the Board of the Company agreed to the joint contributions of NGN5 million by ZTE (HK) Ltd. and ZTE (Australia) Ltd. to establish ZTE NIGERIA INVESTMENT LTD. in Nigeria and held 100% of its shares. The principal activities of the subsidiary are the import and export of raw materials, manufacture, testing, sale, installation, development, user training and after-sale services of telecommunications products.
- *7 In March 2005, the Board of the Company agreed to the contribution of SEK1 million by ZTE (HK) Ltd. to establish ZTE Sweden AB in Sweden and held 100% of its shares. The principal activities of the subsidiary are the agency and sale of the Company's products in Sweden and the related engineering, after-sale services and technical support, consultancy and training.
- *8 In May 2005, the Board of the Company agreed to the cash contribution of USD0.20 million to establish PT ZTE INDONESIA in Indonesia and held 100% of its shares. The principal activities of the subsidiary are the agency and sale of the Company's products in Indonesia and the related engineering, after-sale services and technical support, consultancy and training.

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NOTE 5. EXPLANATORY NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS AND ARE EXPRESSED IN RENMINBI THOUSANDS, UNLESS OTHERWISE STATED)

Explanatory note 1. Cash in banks and on hand

Items		Balance at end of period			Balance at beginning of period		
		Original	Conversion	Amount	Original	Conversion	Amount
		currency	rate	equivalent	currency	rate	equivalent
		'000	RMB'000	'000	RMB'000		
Cash	RMB	10,394	1.00	10,394	366	1.00	366
	HKD	75	1.06	80	353	1.06	389
	USD	192	8.27	1,591	1,625	8.27	13,481
	BRL	1	3.52	4	72	2.89	224
	Others			11,565			404
	Sub-total			23,634			14,864
Bank deposits	RMB	2,366,925	1.00	2,366,925	2,081,252	1.00	2,081,252
	HKD	17,956	1.06	19,033	2,910,758	1.06	3,086,167
	USD	62,834	8.27	519,634	219,675	8.27	1,815,532
	JPY	20,225	0.08	1,618	308,288	0.08	22,380
	SEK	2,556	1.06	2,709	1,640	1.13	1,852
	GBP	197	14.83	2,915	170	15.91	2,496
	EGP	12,794	1.42	18,173	12,947	1.35	17,454
	BRL	21,283	3.52	74,916	41,913	2.89	130,768
	PKR	378,950	0.14	53,053	215,941	0.15	32,278
	EUR	8,597	10.00	85,974	6,696	11.26	74,380
	Others			46,655			9,108
	Sub-total			3,191,605			7,273,667
Other monetary funds	RMB	485,156	1.00	485,156	304,656	1.0000	304,656
	HKD	37,637	1.06	39,895	—	1.0603	—
	PKR	96,236	0.14	13,473	24,741	0.1495	3,698
	USD	480	8.27	3,983	118	8.2705	977
	Others			39,610			361
	Sub-total			582,117			309,692
Total				3,797,356			7,598,223

Notes to the Financial Statements

(Prepared under PRC GAAP)

Explanatory note 2. Notes receivables

Type	Balance at end of period RMB'000	Balance at beginning of period RMB'000
Bank acceptance bills	948,024	743,356
Commercial acceptance bills	1,119,257	1,514,732
Total	2,067,281	2,258,088

* As at the end of the period, the discounted and outstanding commercial acceptance bills amounted to RMB31,181,000. The Company is obligated to repay the indebtedness in case of defaults of debtors.

Explanatory note 3. Accounts receivables

Particulars of consolidated amounts of accounts receivables are set out as follows:

Ageing	Balance at end of period			Balance at beginning of period		
	Amount RMB'000	Percentage of total	Provision for bad debts RMB'000	Amount RMB'000	Percentage of total	Provision for bad debts RMB'000
Within one year	3,762,499	81.10%	145,136	3,513,954	86.08%	124,909
Between one to two years	736,829	15.88%	205,969	420,742	10.31%	224,275
Between two to three years	65,047	1.40%	61,952	113,999	2.79%	67,346
Over three years	75,164	1.62%	70,860	33,416	0.82%	13,075
Total	4,639,539	100%	483,917	4,082,111	100%	429,605

* Of the balance of accounts receivables as at 30 June 2005, the top five outstanding amounts of accounts receivables amounted to RMB3,245,260,000, accounting for 69.95% of the total accounts receivables.

** Amount due from shareholders holding 5% or more in the shares was RMB177,000 at the end of the period. Please refer to Note 6 "Relationship and transactions with related parties".

Particulars of accounts receivables of the Company are set out as follows:

Ageing	Balance at end of period			Balance at beginning of period		
	Amount RMB'000	Percentage of total	Provision for bad debts RMB'000	Amount RMB'000	Percentage of total	Provision for bad debts RMB'000
Within one year	3,816,329	76.78%	145,136	3,887,109	87.61%	123,773
Between one to two years	983,363	19.78%	193,296	410,416	9.25%	216,698
Between two to three years	100,415	2.02%	59,685	110,457	2.49%	67,244
Over three years	70,728	1.42%	70,728	28,946	0.65%	12,883
Total	4,970,835	100%	468,845	4,436,928	100%	420,598

* Of the balance of accounts receivables as at 30 June 2005, the top five outstanding amounts of accounts receivables amounted to RMB3,166,762,000, accounting for 63.71% of the total accounts receivable.

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(Prepared under PRC GAAP)

Explanatory note 4. Other receivables

Ageing	Balance at end of period			Balance at beginning of period		
	Amount RMB'000	Percentage of total	Provision for bad debts RMB'000	Amount RMB'000	Percentage of total	Provision for bad debts RMB'000
Within one year	696,449	70.57%	304,926	291,783	39.69%	175,946
Between one to two years	193,650	19.62%	128,403	271,113	36.88%	137,116
Between two to three years	21,434	2.17%	18,456	42,628	5.80%	41,418
Over three years	75,345	7.64%	73,631	129,564	17.63%	123,013
Total	986,878	100%	525,416	735,088	100%	477,493

* No amount due from shareholders holding 5% or more of the shares is outstanding as at end of period.

Particulars of other receivables of the Company are set out as follows:

Ageing	Balance at end of period			Balance at beginning of period		
	Amount RMB'000	Percentage of total	Provision for bad debts RMB'000	Amount RMB'000	Percentage of total	Provision for bad debts RMB'000
Within one year	1,090,061	72.17%	302,385	781,310	64.92%	166,872
Between one to two years	320,936	21.25%	128,403	257,046	21.36%	135,531
Between two to three years	26,612	1.76%	18,456	41,667	3.46%	41,156
Over three years	72,753	4.82%	72,526	123,527	10.26%	121,808
Total	1,510,362	100%	521,770	1,203,550	100%	465,367

* No amount due from shareholders holding 5% or more of the shares is outstanding as at end of period.

Explanatory note 5. Prepayments

Ageing	Balance at end of period		Balance at beginning of period	
	Amount RMB'000	Percentage of total	Amount RMB'000	Percentage of total
Within one year	136,855	99.85%	145,151	99.83%
Between one to two years	200	0.15%	247	0.17%
Over two years	—	—	—	—
Total	137,055	100%	145,398	100%

* No amount due from shareholders holding 5% or more of the shares is outstanding as at the end of the period.

Notes to the Financial Statements

(Prepared under PRC GAAP)

Explanatory note 6. Inventories and provision for inventories

Type	Balance at end of period		Balance at beginning of period	
	Carrying balance RMB'000	Provision RMB'000	Carrying Balance RMB'000	Provision RMB'000
Raw materials	1,507,638	87,957	1,304,417	86,161
Work-in-progress	309,992	7,311	356,899	—
Finished goods	430,276	215,874	575,071	333,612
Others	34,198	—	66,194	—
Total	2,282,104	311,142	2,302,581	419,773

Breakdown of provision for inventories:

Type	Balance at beginning of period RMB'000	Increase during period RMB'000	Decrease during period RMB'000	Balance at end of period RMB'000
Raw materials	86,161	1,796	—	87,957
Work-in-progress	—	7,311	—	7,311
Finished goods	333,612	—	117,738	215,874
Total	419,773	9,107	117,738	311,142

Explanatory note 7. Contract amounts receivables

Type	Balance at end of period		Balance at beginning of period	
	Carrying value RMB'000	Impairment provision RMB'000	Carrying value RMB'000	Impairment provision RMB'000
Project construction	3,085,594	176,412	1,404,003	170,094
Goods dispatched	1,505,982	222,879	1,552,992	172,651
Total	4,591,576	399,291	2,956,995	342,745

Breakdown of impairment provision for contract amounts receivables:

Type	Balance at beginning of period RMB'000	Increase during the period RMB'000	Decrease during the period RMB'000	Balance at end of period RMB'000
Project construction	170,094	6,318	—	176,412
Goods dispatched	172,651	50,228	—	222,879
Total	342,745	56,546	—	399,291

Notes to the Financial Statements

(Prepared under PRC GAAP)

Explanatory note 8. Technology development costs

Item	Balance at end of period RMB'000	Balance at beginning of period RMB'000
Technology development costs	272,080	146,700

Pursuant to the document issued by the Accounting Division of the Ministry of Finance Cai Kuai Bian [2002] No. 36 “Reply on the Auditing of Technology Development Costs for Specialized Projects Designated by the State”, expenses incurred by the Company in the development of designated products using specialised State funding will be deemed as pooled costs and expenses for the Company’s production operations and audited under technology development costs. The balance of technology development at the end of the period, represented costs and expenses pooled in respect of designated projects using specialised State funding prior to their completion or inspection for acceptance.

Explanatory note 9. Long-term investments

(1) Particulars of consolidated amounts of long-term equity investments are set out as follows:

Item	Balance at end of period			Balance at beginning of period		
	Carrying balance RMB'000	Provision for impairment RMB'000	Carrying value RMB'000	Carrying balance RMB'000	Provision for impairment RMB'000	Carrying Value RMB'000
Long-term equity investments						
Of which: Share Investments	—	—	—	—	—	—
Other equity investments	80,905	—	80,905	61,491	—	61,491
Differences in equity investments	18,315	13,036	5,279	18,721	13,036	5,685
Long-term bond investments	—	—	—	—	—	—
Total	99,220	13,036	86,184	80,212	13,036	67,176

Notes to the Financial Statements

(Prepared under PRC GAAP)

a. *Other equity investments*

i. Other equity investments accounted for by cost method

Name of investee company	Percentage of registered capital of investee company	Initial investment	Balance at beginning of period	Increase during period	Decrease during period	Balance at end of period
		RMB'000	RMB'000	RMB'000	RMB'000	
Shenzhen Capital Group Co., Ltd.	0.33%	5,000	5,000	—	—	5,000
Beijing Zhongshilian Digital System Company Limited	7.59%	3,240	3,240	—	—	3,240
Spread Telecom	4.50%	176	176	—	176	—
Edmotech Co., Ltd	18%	1,406	1,406	—	1,406	—
Shenzhen Zhonyxing Xinyu FPC Company, Limited	22.73%	2,500	2,500	—	—	2,500
China Topssion Communication Co. Ltd.	16.00%	32,000	32,000	—	—	32,000
SunTop Technologies Ltd.	26.54%	24	24	—	—	24
Total			44,346	—	1,582	42,764

ii. Other equity investments accounted for by equity method

Name of investee company	Percentage of registered capital of investee company	Initial investment	Balance at beginning of period	Increase/decrease in investment cost during period	Increase/decrease in equity interests during period	Balance at end of period
		RMB'000	RMB'000	RMB'000	RMB'000	
Beijing Zhongxing Yuanjing Technology Co., Ltd.	30%	3,000	329	—	—	329
Beijing Zhongxing Xin Telecom Ltd.	50%	2,500	6,311	—	—	6,311
KAZNURTEL Limited Liability Company	49%	USD2,500,000	1,012	—	—	1,012
Wuxi Kaier Science and Technology Company, Limited	35%	3,500	3,500	—	—	3,500
Shenzhen Weigao Semiconductor Company, Limited	40%	4,000	4,000	—	—	4,000
Bestel Communication Ltd	50%	CYP150,000	1,993	—	—	1,993
Xian Zhongxing Jingcheng Communications Company, Limited	34%	5,600	—	5,597	—	5,597
ZTE IC Design Co., Ltd.	40%	30,000	—	—	10,899	10,899
ZTE Software Technology (Nanchang) Company, Limited	30%	4,500	—	4,500	—	4,500
Total			17,145	10,097	10,899	38,141

Notes to the Financial Statements

(Prepared under PRC GAAP)

b. *Changes in provision for impairment of investments*

Name of investee company	Balance at beginning of period RMB'000	Increase during period RMB'000	Decrease during period RMB'000	Balance at end of period RMB'000
Shenzhen Guoxing Electronics Development Company, Limited (difference in equity investments)	13,036	—	—	13,036

c. *Differences in equity investments*

Investee unit	Amortisation period	Initial amount RMB'000	Amortised during period RMB'000	Accumulated amortisation RMB'000	Net value RMB'000
ZTE Mobile Tech Co., Limited	10 years	8,626	406	3,347	5,279

(2) Particulars of amounts of long-term investments of the Company are set out as follows:

Item	Balance at end of period			Balance at beginning of period		
	Carrying balance RMB'000	Provision for impairment RMB'000	Carrying value RMB'000	Carrying balance RMB'000	Provision for impairment RMB'000	Carrying Value RMB'000
Long-term equity investment						
Of which: Share investments	—	—	—	—	—	—
Other equity investments	3,283,476	—	3,283,476	2,999,345	—	2,999,345
Differences in equity investments	7,140	13,036	(5,896)	6,686	13,036	(6,350)
Long-term bond investments	—	—	—	—	—	—
Total	3,290,616	13,036	3,277,580	3,006,031	13,036	2,992,995

Notes to the Financial Statements

(Prepared under PRC GAAP)

a. *Other equity investments*

I. Other equity investments accounted for by cost method

Name of investee company	Percentage of registered capital of investee company	Initial investment cost RMB'000	Balance at beginning of period RMB'000	Increase during period RMB'000	Decrease during period RMB'000	Balance at end of period RMB'000
Shenzhen Capital Group Co., Ltd.	0.33%	5,000	5,000	—	—	5,000
Beijing Zhangshilian Digital System Company, Limited	7.59%	3,240	3,240	—	—	3,240
China Topssion Communication Co. Ltd.	16.00%	32,000	32,000	—	—	32,000
SunTop Technologies Ltd.	26.54%	23	23	—	—	23
Total			40,263	—	—	40,263

II. Other equity investments accounted for by equity method

Name of investee company	Percentage of registered capital of investee company	Initial investment cost (RMB'000)	Balance at beginning of period (RMB'000)	Increase/(decrease) in investment cost during period (RMB'000)	Increase/(decrease) in equity interests during period (RMB'000)	Balance at end of period (RMB'000)
ZTE Kangxun Telecom Co., Ltd.	90%	RMB45,000	1,036,766	—	145,434	1,182,200
Shenzhen Zhongxing Mobile Telecom Equipment Co., Ltd.	90%	RMB9,000	9,340	—	37	9,377
Shanxi Zhongxing Telecom Equipment Company, Limited	51%	RMB4,080	5,587	(5,587)	—	—
Beijing Zhongxing Telecom Ltd.	50%	RMB2,500	6,311	—	—	6,311
ZTE (USA) Inc.	100%	USD650	4,173	—	(11,496)	(7,323)
Wuxi Zhongxing Optoelectronics Technologies Company, Limited	65%	RMB6,500	29,487	—	(793)	28,694
ZTE IC Design Co., Ltd.	40%	RMB30,000	6,808	—	4,091	10,899
Beijing Zhongxing Yuanjing Technology Co., Ltd.	30%	RMB3,000	329	—	—	329
ZTE (H.K.) Limited	100%	RMB5,500	400,368	—	5,632	406,000
Anhui Wantong Posts and Telecommunications Company, Limited	51%	RMB15,697.7	18,617	—	846	19,463
Telrise (Cayman) Telecom Ltd.	52.85%	RMB15,770	5,965	—	(47)	5,918
ZTE Future Tel Co., Ltd	54.14%	RMB26,975	561	(561)	—	—
Shenzhen Guoxing Electronics Development Company, Limited	90%	RMB12,318.258	3,292	—	—	3,292

Notes to the Financial Statements

(Prepared under PRC GAAP)

Name of investee company	Percentage of registered capital of investee company	Initial investment cost ('000)	Balance at beginning of period (RMB'000)	Increase/ (decrease) in investment cost during period (RMB'000)	Increase/ (decrease) in equity interests during period (RMB'000)	Balance at end of period (RMB'000)
Congo-Chine Telecom S.A.R.L.	51%	RMB41,500	32,156	—	296	32,452
Yangzhou Zhongxing Mobile Telecom Equipment Co., Limited	65%	RMB3,900	(9,890)	—	(1,632)	(11,522)
ZTE Mobile Tech Co., Limited	95%	RMB31,666	9,034	—	87,138	96,172
Nanjing Zhong Xing Software Development Technology Co., Ltd.	81%	RMB25,560	55,705	—	36,274	91,979
ZTE (UK) Ltd	51%	USD372.3	(6,876)	—	(1,370)	(8,246)
Shenzhen Zhongxing Software Company, Limited	90%	RMB45,000	1,175,302	—	169,564	1,344,866
ZTE Integration Telecom Ltd.	75%	RMB24,000	36,922	—	(2,392)	34,530
ZTE Wistron Telecom AB	100%	RMB3,137.4	1,714	—	796	2,510
ZTE-Communication Technologies, Ltd	100%	USD950	5,563	—	(4,481)	1,082
ZTE Do Brasil Ltda.	100%	USD900	(1,138)	—	(1,831)	(2,969)
Shenzhen Changfei Investment Company, Limited	51%	RMB15,300	42,885	—	5,608	48,493
Zhongxing Telecom Pakistan (Private) Limited	93%	RMB1,550	3,468	3,730	(165,473)	(158,275)
Guangdong New Pivo Technology & Service Company, Limited	90%	RMB4,500	4,774	—	(138)	4,636
Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited	90%	RMB45,000	44,931	—	(3,455)	41,476
Shanghai Zhongxing Telecom Equipment Technology & Service Company, Limited	51%	RMB5,100	5,431	—	1,669	7,100
Shenzhen Zhongxing Special Equipment Company, Limited	54%	RMB540	488	—	88	576
ZTE Holdings (Thailand) Co., Ltd	49%	USD13.72	(6)	—	4	(2)
ZTE (Thailand) Co., Ltd	49%	USD204.526	(1,745)	—	(146)	(1,891)
ZTE Corporation Mexico S. DE R. L DE C.V.	100%	USD28.115	(5,775)	—	(2,725)	(8,500)
Closed Joint Stock Company TK Mobile	51%	USD2,040	14,935	—	(829)	14,106
ZTE Kangxun Telecom Company India (Private) Ltd.	100%	USD200	1,599	—	(14,027)	(12,428)
ZTE ROMANIA SRL	100%	USD100	449	—	(2,639)	(2,190)
ZTE MALAYSIA CORPORATION SDN. BHD.	100%	USD60	(134)	—	(1,190)	(1,324)
ZiMax (Cayman) Holding Ltd.	100%	USD2,500	20,673	24,810	—	45,483
KAZNURTEL Limited Liability Company	49%	USD2,500	1,013	—	—	1,013
Xian Zhongxing Jingcheng Company, Limited	34%	RMB5,600	—	5,597	—	5,597
PT ZTE INDONESIA	100%	USD200	—	1,654	7,175	8,829
ZTE Software Technology (Nanchang) Company, Limited	30%	RMB4,500	—	4,500	—	4,500
Total			2,959,082	34,143	249,988	3,243,213

Notes to the Financial Statements

(Prepared under PRC GAAP)

b. Changes in provision for impairment of long-term investments

Provision for impairment of long-term investments	Balance at beginning of period RMB'000	Increase during period RMB'000	Reversal during period RMB'000	Balance at end of period RMB'000
Shenzhen Guoxing Electronics Development Co., Ltd. (difference in equity investments)	13,036	—	—	13,036

c. Differences in equity investments

Investee unit	Amortisation period	Amortised			Net value RMB'000
		Initial amount RMB'000	during period RMB'000	Accumulated amortisation RMB'000	
Congo-Chine Telecom S.A.R.L.	10 years	(17,193)	(860)	(6,018)	(11,175)
ZTE Mobile Tech Co., Limited	10 years	8,626	406	3,347	5,279
Total		(8,567)	(454)	(2,671)	(5,896)

Explanatory note 10. Fixed assets and accumulated depreciation

Cost of fixed assets	Balance at beginning of period RMB'000	Increase during period RMB'000	Decrease during period RMB'000	Balance at end of period RMB'000
Buildings	692,156	—	—	692,156
Motor vehicles	177,271	27,853	6,691	198,433
Machinery and equipment	879,133	124,278	19,045	984,366
Electronics equipment	898,749	197,136	15,684	1,080,201
Other equipment	78,460	13,228	99	91,589
Total	2,725,769	362,495	41,519	3,046,745

Accumulated depreciation	Balance at beginning of period RMB'000	Increase during period RMB'000	Decrease during period RMB'000	Balance at end of period RMB'000
Buildings	81,452	15,206	—	96,658
Motor vehicles	24,839	7,929	3,996	28,772
Machinery and equipment	250,080	44,304	13,247	281,137
Electronics equipment	432,085	101,376	10,378	523,083
Other equipment	4,867	986	85	5,768
Total	793,323	169,801	27,706	935,418

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Provision for impairment	Balance at beginning of period	Increase during period	Reversal during period	Balance at end of period
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Buildings	7,708	—	—	7,708
Machinery equipment	1,475	—	—	1,475
Electronics equipment	85,797	—	—	85,797
Total	94,980	—	—	94,980
Net value	1,837,466	—	—	2,016,347

Explanatory note 11. Construction-in-progress

Name of construction project	Budget	Balance at beginning of period	Increase during period	Transfer to fixed assets during period	Other decrease during period	Balance at end of period	Source of funds	Progress
Science and Technology Park R&D Center	333,136	71,269	57,510	—	—	128,779	Internal funds	Not completed
ZTE Science Park	—	24,446	3,318	—	—	27,764	Internal funds	Not completed
4th phase expanding network	—	11,407	—	11,407	—	—	Internal funds	Not completed
Others	20,000	7,555	39,153	—	3,030	43,678	Internal funds	Not completed
Total	353,136	114,677	99,981	11,407	3,030	200,221		

* Balance of construction-in-progress of the Company at the end of the period increased by RMB85,544,000 or 74.60% over the balance at the beginning of the period, mainly due to the increase in investment in the Science and Technology Park R&D Center by the Company during the period.

Explanatory note 12. Intangible assets

Category	Method of possession	Balance at beginning of period	Additions during period	Transfers during period	Amortisation for period	Balance at end of period	Remaining years for amortisation
Software	Acquisition	123,030	12,232	165	20,989	114,108	1–5 years
Patented technology	Acquisition	5,877	—	3,587	117	2,173	1–10 years
Land use rights	Acquisition	4,751	—	—	162	4,589	49 years
Trademark use right	Investment	7,753	—	4	—	7,749	
License rights	Investment/Acquisition	31,757	31,013	—	3,722	59,048	
Total		173,168	43,245	3,756	24,990	187,667	

Notes to the Financial Statements

(Prepared under PRC GAAP)

Provision for impairment of intangible assets is as follow:

Item	Balance at beginning of period RMB'000	Additions during period RMB'000	Decrease during period			Total RMB'000	Balance at end of period RMB'000
			Written-back due to increase in value of assets RMB'000	Amount debited due to other reasons RMB'000			
Software	12,882	—	—	—	—	—	12,882
Land use rights	6,322	—	—	—	—	—	6,322
Trademark use rights	7,750	—	—	—	—	—	7,750
Total	26,954	—	—	—	—	—	26,954

Explanatory note 13. Long-term prepaid expenses

Category	Balance at beginning of period RMB'000	Additions during period RMB'000	Amortisation during period RMB'000	Balance at end of period RMB'000	Remaining years of amortisation
Expenses for leased assets improvement	18,409	1,070	7,968	11,511	1-5 years
Others	5,376	1,220	6,596	—	1-3 years
Total	23,785	2,290	14,564	11,511	

Explanatory note 14. Deferred tax assets

Item	Balance at end of period RMB'000	Balance at beginning of period RMB'000
Deferred income tax	79,803	104,625

Explanatory note 15. Short-term loans

Category of loans	Currencies	Balance at end of period		Balance at beginning of period	
		Amount '000	Amount equivalent RMB'000	Amount '000	Amount equivalent RMB'000
Guaranteed loans	RMB	23,000	23,000	—	—
Mortgage loans	RMB	—	—	2,021	2,021
Pledged loans	RMB	—	—	350,334	350,334
Credit loans	RMB	17,738	17,738	12,000	12,000
	USD	—	—	5,000	41,340
Total			40,738		405,695

Notes to the Financial Statements

(Prepared under PRC GAAP)

Explanatory note 16. Accounts payables

At the end of the period, accounts payables amounted to RMB3,555,083,000. The amount due to shareholders who held 5% or above of the Company's shares accounted for RMB75,897,000 (see Note 6 Related party transactions).

Explanatory note 17. Advances from customers

At the end of the period, advances from customers amounted to RMB1,312,259,000. There was no advance from shareholders who held 5% or above of the Company's shares.

Explanatory note 18. Taxation payable

Tax	Balance at end of period <i>RMB'000</i>	Balance at beginning of Period <i>RMB'000</i>
Value-added tax	(340,882)	(223,852)
Business tax	5,439	13,815
Urban maintenance & construction tax	2,443	2,763
Corporate income tax	77,463	228,648
Property tax	8,142	10
Individual income tax	4,953	31,075
Total	(242,442)	52,459

Explanatory note 19. Other payables

At the end of the period, other payables were RMB589,945,000. Amount due to shareholders who held 5% or above of the Company's shares accounted for RMB313,000 (see Note 6 Related party transactions).

Explanatory note 20. Accruals

Items	Balance at end of period <i>RMB'000</i>	Balance at beginning of period <i>RMB'000</i>
Interest expenses	22,552	3,072
Rent and water and electricity charges	5,154	3,966
Work installation expenses	184,590	1,063
Product warranty expenses	221,179	186,227
Commission	—	26,336
Others	30,351	47,870
Total	463,826	268,534

Explanatory note 21. Anticipated liabilities

The outstanding amount of anticipated liabilities amounted to RMB20,000,000 at the end of the period, which mainly accounted for potential liabilities arising from the rendering of quality assurance of product warranty.

Notes to the Financial Statements

(Prepared under PRC GAAP)

Explanatory note 22. Long-term loans due within one year

Category of loans	Currencies	Balance at end of period		Balance at beginning of period	
		Amount '000	Amount Equivalent RMB'000	Amount '000	Amount Equivalent RMB'000
Credit loans	RMB	—	—	900	900
	USD	1,929	16,000	1,929	16,000
Total			16,000		16,900

Explanatory note 23. Long-term loans

Category of loans	Currencies	Balance at end of period		Balance at beginning of period	
		Amount '000	Amount Equivalent RMB'000	Amount '000	Amount Equivalent RMB'000
Credit loans	RMB	—	—	450,000	450,000
Guaranteed loans	RMB	500,000	500,000	500,000	500,000
	USD	7,719	64,000	7,719	64,000
Pledged loans	EUR	1,000	10,696	1,000	11,263
Total			574,696		1,025,263

Explanatory note 24. Specific amounts payables

Item	Balance at end of period RMB'000	Balance at beginning of period RMB'000
Technology appropriations	312,500	227,320

Notes to the Financial Statements

(Prepared under PRC GAAP)

Explanatory note 25. Share capital

Item	Balance at beginning of period <i>RMB'000</i>	Increase/(decrease) during period			Balance at end of period <i>RMB'000</i>
		Number of bonus shares	Addition <i>RMB'000</i>	Decrease <i>RMB'000</i>	
1. Non-trading shares					
1. Promoter shares					
State-owned corporate shares	462,273	—	—	—	462,273
Domestic corporate shares	13,478	—	—	—	13,478
2. Non-promoter shares					
Domestic corporate shares	21,566	—	—	—	21,566
Total non-trading shares	497,317	—	—	—	497,317
2. Trading shares					
1. Domestic listed RMB ordinary shares	302,054	—	—	—	302,054
2. Overseas listed foreign shares	160,151	—	—	—	160,151
Total trading shares	462,205	—	—	—	462,205
3. Total number of shares	959,522	—	—	—	959,522

Explanatory note 26. Capital reserve

Item	Balance at beginning of period <i>RMB'000</i>	Increase during period <i>RMB'000</i>	Decrease during period <i>RMB'000</i>	Balance at end of period <i>RMB'000</i>
Share premium	5,462,657	—	—	5,462,657
Provision for acceptance of non-cash asset donation	62	—	—	62
Provision for equity investments	28,939	4,101	—	33,040
Other capital reserve	—	5,307	—	5,307
Total	5,491,658	9,408	—	5,501,066

Explanatory note 27. Surplus reserve

Item	Balance at beginning of period <i>RMB'000</i>	Increase during period <i>RMB'000</i>	Decrease during period <i>RMB'000</i>	Balance at end of period <i>RMB'000</i>
Statutory surplus reserve	985,356	—	—	985,356
including: Statutory common reserve	733,350	—	—	733,350
Statutory public welfare fund	252,006	—	—	252,006

Notes to the Financial Statements

(Prepared under PRC GAAP)

Explanatory note 28. Undistributed profit

Item	Balance at beginning of period RMB'000	Increase during period RMB'000	Decrease during period RMB'000	Balance at end of period RMB'000
Undistributed profit	1,495,431	687,663	—	2,183,094

Explanatory note 29. Revenue from and cost of principal operations

Details of the consolidated amounts of revenue from and cost of principal operations are as follows:

Business segment:

Item of principal main operations	6 months ended 30 June 2005		6 months ended 30 June 2004	
	Revenue from principal operations RMB'000	Cost of principal operations RMB'000	Revenue from principal operations RMB'000	Cost of principal operations RMB'000
Communication system construction	6,909,884	3,771,337	9,064,796	5,343,264
Communication terminal equipment	2,214,613	1,980,083	2,653,375	2,063,378
Telecommunications service income	1,178,501	672,063	56,088	32,270
Total	10,302,998	6,423,483	11,774,259	7,438,912

* Sales revenue from the five largest customers of the Company totalled RMB5,599,287,000, accounting for 54.35% of total sales revenue for the period.

Geographical segment:

Region	6 months ended 30 June 2005		6 months ended 30 June 2004	
	Revenue from principal operations RMB'000	Cost of principal operations RMB'000	Revenue from principal operations RMB'000	Cost of principal operations RMB'000
Domestic	7,155,786	4,698,008	9,704,455	6,398,880
Overseas	3,147,212	1,725,475	2,069,804	1,040,032
Total	10,302,998	6,423,483	11,774,259	7,438,912

Notes to the Financial Statements

(Prepared under PRC GAAP)

Details of revenue from and cost of principal operations of the Company are as follows:

Business segment:

Item of principal operations	6 months ended 30 June 2005		6 months ended 30 June 2004	
	Revenue from principal operations <i>RMB'000</i>	Cost of principal operations <i>RMB'000</i>	Revenue from principal operations <i>RMB'000</i>	Cost of principal operations <i>RMB'000</i>
Communication system equipment	6,723,099	5,521,723	8,697,695	6,394,938
Communication terminal equipment	2,112,341	1,956,475	2,614,319	2,028,700
Telecommunication services	1,117,049	631,718	—	—
Total	9,952,489	8,109,916	11,312,014	8,423,638

Geographical segment:

Region	6 months ended 30 June 2005		6 months ended 30 June 2004	
	Revenue from principal operations <i>RMB'000</i>	Cost of principal operations <i>RMB'000</i>	Revenue from principal operations <i>RMB'000</i>	Cost of principal operations <i>RMB'000</i>
Domestic	7,062,517	6,019,105	9,534,647	7,280,940
Overseas	2,889,972	2,090,811	1,777,367	1,142,698
Total	9,952,489	8,109,916	11,312,014	8,423,638

Explanatory note 30. Taxes and levies on principal operations

Type of tax	6 months ended 30 June 2005 <i>RMB'000</i>	Basis of Calculation
Business tax	16,034	5%, 3%
Urban maintenance & construction tax	5,832	1%, 7%
Education surcharge	14,577	3%
Total	36,443	

Notes to the Financial Statements

(Prepared under PRC GAAP)

Explanatory note 31. Profit from other operations

Item of activities	6 months ended 30 June 2005 <i>RMB'000</i>	6 months ended 30 June 2004 <i>RMB'000</i>
Sales of raw materials	—	36,535
Technology service and consultation fee	2,735	—
Total	2,735	36,535

Explanatory note 32. Finance Expenses

Type	6 months ended 30 June 2005 <i>RMB'000</i>	6 months ended 30 June 2004 <i>RMB'000</i>
Interest expenses	73,613	56,856
Less: Interest income	31,201	8,262
Exchange (gains)/losses	(11,302)	(2,694)
Cash discounts and interest subsidies	37,855	22,426
Others	29,741	34,944
Total	98,706	103,270

Explanatory Note 33. Investment income

Details of consolidated investment income are as follows:

Type	6 months ended 30 June 2005 <i>RMB'000</i>	6 months ended 30 June 2004 <i>RMB'000</i>
Amortisation of equity investment difference	(406)	(1,275)
Investment income under equity method	347	(182)
Gains on disposal of equity	(230)	—
Total	(289)	(1,457)

Details of investment income of the Company are as follows:

Type	6 months ended 30 June 2005 <i>RMB'000</i>	6 months ended 30 June 2004 <i>RMB'000</i>
Investment income under equity method	256,049	570,964
Amortisation of equity investment difference	453	(1,275)
Gain on disposal of equity	(230)	—
Total	256,272	569,689

Notes to the Financial Statements

(Prepared under PRC GAAP)

Explanatory Note 34. Subsidies income

Type	6 months ended 30 June 2005 RMB'000	6 months ended 30 June 2004 RMB'000
Refund of value-added tax on software products*	120,528	181,430
Export subsidies income	—	1,496
Others	6,000	2,183
Total	126,528	185,109

* The refund of value-added tax on software products is the part of the value-added tax on the sales of software products which exceeds 3% of the actual tax burden refunded to the subsidiary held by the Company immediately after collection, pursuant to related spirit of the “Policies on Encouraging the Development of Software Industry and Integrated Circuit Industry” of the State Council and the approval of the Shenzhen Municipal Office of the State Administration of Taxation.

Explanatory Note 35. Non-operating income/expenses

1. Non-operating income

Item of income	6 months ended 30 June 2005 RMB'000	6 months ended 30 June 2004 RMB'000
Penalty income	2,605	2,682
Compensation income	2,558	—
Net gains from disposal of fixed assets	973	3,294
Others	5,547	753
Total	11,683	6,729

2. Non-operating expenses

Item of expenses	6 months ended 30 June 2005 RMB'000	6 months ended 30 June 2004 RMB'000
Net loss on write-off of assets	4,373	32,992
Others	738	488
Total	5,111	33,480

Notes to the Financial Statements

(Prepared under PRC GAAP)

NOTE 6. RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES

1. Relationship with related parties

(1) Related parties with non-controlling relationship

Name of related companies	Relationship with the Company
Shenzhen Zhongxing WXT Equipment Company, Ltd.	Shareholder of the Company's controlling shareholder
Shenzhen Zhongxing Information Technology Co., Ltd.	Partially holding company of the shareholder of the Company's controlling shareholder
Shenzhen Lead Communications Company, Limited*	Has the same controlling shareholder as the Company
Beijing Zhongxing Yuanjing Technology Co., Ltd.	Associated company of the Company
Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	Has the same controlling shareholder as the Company
Xi'an Microelectronics Technology Research Institute	Shareholder of the Company's controlling shareholder
Lishan Microelectronics Research Institute	Shareholder of the Company
Beijing Zhongxing Telecom Ltd.	Subsidiary jointly-controlled by the Company
Beijing Zhongxing Intelligent Transportation Systems Ltd.	Holding subsidiary of a subsidiary jointly-controlled by the Company
Shenzhen Zhongxing Xinyu FPC Company, Limited	Has the same controlling shareholder as the Company
Shenzhen Gaodonghua Communication Technology Co., Ltd	Partially holding company of the shareholder of the Company's controlling shareholder
Beijing Xieli Chaoyue Science Technology Co., Ltd.	Controlling company of the shareholder of the Company's controlling shareholder
Shenzhen Zhongxing Development Co., Ltd.	Partially holding company of the shareholder of the Company's controlling shareholder
Chung Hing (Hong Kong) Development Limited	Company controlled by key management personnel of the Company
ZTEIC Design Co. Ltd.	Associated company of the Company
China Topssion Communication Co. Ltd.	Associated company of the Company
Shenzhen Weigao Semiconductor Co., Ltd.	Associated company of the Company

(2) Related parties with controlling relationship

Name of related companies	Category	Leal representative	Registered capital RMB'000	Business	Shares or interests held	Relationship with the Company
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	State-owned	Zhang Taifeng	10,000	**	44.11%	Controlling shareholder of the Company

** It is engaged in the production of programme-controlled switches, telephones and their accessories and electronic products, and operation of import and export business.

Notes to the Financial Statements

(Prepared under PRC GAAP)

2. Related party transactions

(1) Purchase of products from the related parties by the Company

Item	Name of companies	6 months ended 30 June 2005		6 months ended 30 June 2004	
		Amount RMB'000	Percentage of the item	Amount RMB'000	Percentage of the item
Purchase of goods	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	137,098	2.06%	167,582	2.53%
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	76,661	1.15%	45,394	0.68%
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	39,287	0.59%	94,939	1.43%
	Shenzhen Zhongxing Information Technology Co., Ltd.	332	—	1,638	0.02%
	Xi'an Microelectronics Technology Research Institute	3,492	0.05%	8,259	0.12%
	Shenzhen Zhongxing Xinyu FPC Company, Limited	22,863	0.34%	—	—
	Beijing Zhongxingxin Telecom Equipment Co., Ltd.	76	—	—	—
	Chung Hing (Hong Kong) Development Limited	5,364	0.08%	—	—
	ZTEIC Design Co., Limited	9,732	0.15%	—	—
	Shenzhen Lead Communications Company, Limited*	—	—	39,747	0.59%

Notes to the Financial Statements

(Prepared under PRC GAAP)

(2) Sales of products to the related parties by the Company

Item	Name of companies	6 months ended 30 June 2005		6 months ended 30 June 2004	
		Amount RMB'000	Percentage of the item	Amount RMB'000	Percentage of the item
Sales of goods	Shenzhen Zhongxing Information Technology Co., Ltd.	3,765	0.04%	360	—
	Beijing Zhongxingxin Telecom Equipment Ltd.	4,094	0.04%	—	—
	Beijing Zhongxing Yuanjing Technology Co., Ltd.	2,412	0.02%	5,769	0.05%
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	2,634	0.03%	557	—
	Beijing Zhongxing Intelligent Transportation Systems Ltd.	4,265	0.04%	—	—
	Xi'an Microelectronics Technology Research Institute	5,253	0.05%	—	—
	China Topssion Communication Co. Ltd.	9,337	0.09%	—	—
	Shenzhen Weigao Semiconductor Co., Ltd.	2,792	0.02%	—	—
	ZTEIC Design Co. Ltd.	3,639	0.04%	—	—
	Shenzhen Lead Communications Company, Limited*	—	—	43,577	0.38%

- * The amount involved in related-party transactions between the Company and Shenzhen Lead Communications Company, Limited represents the transaction amount before that company was consolidated in the Company in January to March of 2004.

Notes to the Financial Statements

(Prepared under PRC GAAP)

3. Amounts due from/to related parties

Items	Name of related companies	Balance at end of period RMB'000	Balance at beginning of period RMB'000
Accounts payables	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	75,897	51,168
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	40,988	31,325
	Shenzhen Zhongxin Information Technology Co., Ltd.	409	3,487
	Shenzhen Zhongxing Xinyu FPC Company, Limited	9,856	2,057
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	22,324	17,939
	Shenzhen Gaodonghua Communication Technology Co., Ltd.	—	5,046
	ZTEIC Design Co. Ltd.	4,903	—
	Beijing Zhongxingxin Telecom Equipment Co., Ltd.	182	93
	Xi'an Microelectronics Technology Research Institute	5,831	3,923
	Other payables	Shenzhen Zhongxing Telecom Ltd.	313
Other payables	Lishan Microelectronics Research Institute	65	65
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	12	12
Notes payables	Shenzhen Zhongxing WXT Equipment Company, Ltd.	3,533	—
	Shenzhen Gaodonghua Communication Technology Co., Ltd.	876	8,448
Prepayments	Shenzhen Zhongxing WXT Equipment Company, Ltd.	—	613
	Shenzhen Zhongxin Information Technology Co., Ltd.	3,929	2,663
	ZTEIC Design Co. Ltd.	182	—
Other receivables	Xi'an Microelectronics Technology Research Institute	630	65
	Lishan Microelectronics Research Institute	—	565
	Shenzhen Zhongxin Information Technology Co., Ltd.	—	1,038
	China Precision Machinery Import & Export Shenzhen Company	—	1,394
Accounts receivables	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	177	169
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	6,012	2,930
	Beijing Zhongxing Yuanjing Technology Co., Ltd.	3,057	3,187
	Shenzhen Zhongxin Information Technology Co., Ltd.	122	1,246
	Beijing Zhongxing Telecom Ltd.	2,270	—
	Beijing Zhongxing Intelligent Transportation Systems Ltd.	479	—
	Shenzhen Zhongxing Development Co. Ltd.	1,313	—
	ZTEIC Design Co. Ltd.	1,884	—
	Shenzhen Weigao Semiconductor Co., Ltd.	990	—
	China Topssion Communication Co. Ltd.	5	—
Xi'an Microelectronics Technology Research Institute	9	—	
Advances from customers	Beijing Zhongxing Intelligent Transportation Systems Ltd.	4	1,082
	Xi'an Microelectronics Technology Research Institute	1,417	93
	Beijing Zhongxing Telecom Ltd.	20	847
	China Topssion Communication Co. Ltd.	2,092	—
	Shenzhen Zhongxin Information Technology Co., Ltd.	60	—
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	12,087	12,087
Dividends payables	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited.	105,805	—
	Lishan Microelectronics Research Institute	2,563	936

Notes to the Financial Statements

(Prepared under PRC GAAP)

NOTE 7. CONTINGENT LIABILITIES

The Company has the following discloseable contingent liabilities:

1. The outstanding discounted commercial acceptance bills of the Company amounted to RMB31,181,000 as at 30 June 2005. If the debtor fails to repay the amount when due, the Company shall be liable for repayment of the liabilities.
2. The outstanding accounts receivables of the Company amounted to RMB891,660,000 as at 30 June 2005. If the debtor fails to repay the amount when due, the Company shall be obligated to assist the bank in recovering this amount from the debtor. Apart from paying overdue interest, the Company shall not be liable for repayment.
3. After obtaining the approval document Jing Jing Mao Ji Cai Ji Zi [B] No. 0288 issued by Beijing Foreign Economic Relations & Trade Commission, a trade amount of USD22,632,000 arising from exporting goods to Pakistan Telecommunications by the Company obtained a tax exemption (rebate) for forward settlement. As at 24 December 2004, the Company entered into an "Agreement in Relation to Payment Forfeit under Pakistan Telecommunications Project's Letter of Credit" (關於巴基斯坦通訊項目信用證下收匯買斷事項的協議) with China Wanbo Engineering Company (中國萬寶工程公司), pursuant to which seven outstanding payment items were forfeited to the headquarters of Bank of China. As at 30 June 2005, the amount due from Pakistan Telecommunications was USD1,720,000. The remaining trade amount shall be settled and written off before September 2006. If the amount is not written off accordingly, the Company shall return the export tax exemption for the portion that has not been settled. The Company estimates that the remaining trade amount shall be recovered and written off in a proper way according to the regulations set out in the contract within the written-off period.
4. As at 30 June 2005, bank performance guarantee letters issued by the Company amounting to RMB1,461,311,000 were still outstanding.

NOTE 8. NON-ADJUSTMENT ITEMS AMONG POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the People's Bank of China announced the reform of the Renminbi exchange rate regime with effective on 22 July 2005. Due to the fluctuation of Renminbi, the Group may expose to exchange loss or gain on the assets and liabilities denominated in foreign currencies.

NOTE 9. OTHER IMPORTANT MATTERS

There is no other important matters.

Notes to the Financial Statements

(Prepared under PRC GAAP)

NOTE 10. RECONCILIATION OF DIFFERENCE OF FINANCIAL REPORTS PREPARED IN ACCORDANCE WITH PRC & HONG KONG ACCOUNTING STANDARDS

	RMB'000
Net assets recognised under Hong Kong GAAP	9,631,289
Add:	
Pension benefits provided under Hong Kong GAAP	28,923
Technology funds and research and development costs accounted for under different standards	(43,926)
Amortisation of goodwill under different standards	<u>(406)</u>
Net assets recognised in financial statements prepared in accordance with the Accounting System for Business Enterprises	<u>9,615,880</u>
Net profit calculated under Hong Kong GAAP	660,359
Add:	
Pension benefits provided under Hong Kong GAAP	—
Technology funds and research and development costs accounted for under different standards	27,710
Amortisation of goodwill under different standards	<u>(406)</u>
Net profit recognised in financial statements prepared in accordance with the Accounting System for Business Enterprises	<u>687,663</u>

NOTE 11. RETURN ON NET ASSETS AND EARNINGS PER SHARE

Profit of reporting period	Return on Net Assets		Earnings per Share	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal operations	39.97%	40.38%	4.00	4.00
Operating profit	7.40%	7.47%	0.74	0.74
Net profit	7.15%	7.22%	0.72	0.72
Net profit after extraordinary items	7.02%	7.10%	0.70	0.70

Notes to the Financial Statements

(Prepared under PRC GAAP)

ZTE CORPORATION STATEMENTS OF PROVISIONS FOR IMPAIRMENT OF ASSETS 30 June 2005

Item	Balance at beginning of period <i>RMB'000</i>	Additions during period <i>RMB'000</i>	Reversals during period <i>RMB'000</i>	Balance at end of period <i>RMB'000</i>
1. Total provisions for bad debts	907,098	102,235	—	1,009,333
Comprising: Accounts Receivables	429,605	54,312	—	483,917
Other receivables	477,493	47,923	—	525,416
2. Total provisions for inventories	419,773	9,107	117,738	311,142
Comprising: Raw materials	86,161	1,796	—	87,957
Work in progress	—	7,311	—	7,311
Finished goods	333,612	—	117,738	215,874
3. Engineering contract receivables	342,745	56,546	—	399,291
Comprising: Project construction	170,094	6,318	—	176,412
Goods dispatched	172,651	50,228	—	222,879
4. Provisions for impairment of long-term investments	13,036	—	—	13,036
5. Provisions for impairment of fixed assets	94,980	—	—	94,980
Comprising: Machinery and equipment	1,475	—	—	1,475
Electronic equipment	85,797	—	—	85,797
Buildings	7,708	—	—	7,708
6. Provisions for impairment of intangible assets	26,954	—	—	26,954
Comprising: Land use rights	6,322	—	—	6,322
Software	12,882	—	—	12,882
Trademark	7,750	—	—	7,750