Condensed Consolidated Income Statement

(Prepared under Hong Kong accounting standards)
For the six months ended 30 June 2005

	Notes	For the six months ended 30 June 2005 (Unaudited) RMB'000	2004 (Audited) RMB'000
TURNOVER	4	**10,302,992**	10,178,962
Cost of sales		**(6,521,433)**	(6,443,536)
Gross profit		**3,781,559**	3,735,426
Interest income		**34,592**	14,876
Other revenue and gains, net	4	**246,329**	246,898
Research and development costs		**(1,144,343)**	(1,042,617)
Selling and distribution costs		**(1,485,474)**	(1,447,017)
Administrative expenses		**(492,006)**	(464,910)
Other operating expenses		**(49,861)**	(69,230)
PROFIT FROM OPERATING ACTIVITIES	5	**890,796**	973,426
Finance costs	6	**(74,805)**	(58,902)
Share of profits and losses of:			
Jointly-controlled entities		**1,191**	661
Associates		**(822)**	(182)
PROFIT BEFORE TAX		**816,360**	915,003
Tax	7	**(74,380)**	(69,779)
PROFIT FOR THE PERIOD		**741,980**	845,224
ATTRIBUTABLE TO:			
Equity holders of the parent		**660,359**	724,059
Minority interests		**81,621**	121,165
Earnings per share for the profit attributable to the equity holders of the parent			
— Basic	9	**RMB0.69**	RMB0.90

Condensed Consolidated Balance Sheet

(Prepared under Hong Kong accounting standards)
30 June 2005

	Notes	30 June 2005 (Unaudited) RMB'000	31 December 2004 (Audited) RMB'000
			(Restated)
NON-CURRENT ASSETS			
Fixed assets		**2,192,784**	1,935,658
Prepaid land premiums/land lease payments		**49,341**	52,042
Intangible assets		**208,922**	207,949
Goodwill		**5,684**	5,684
Interests in jointly-controlled entities		**50,141**	7,786
Interests in associates		**19,822**	8,845
Available-for-sale investments	10	**10,764**	44,347
Long-term trade receivables	12	**—**	88
Deferred tax assets		**79,803**	104,681
		2,617,261	2,367,080
CURRENT ASSETS			
Prepaid land premiums/land lease payments		**1,275**	1,887
Inventories		**1,860,150**	1,725,067
Amount due from customers for contract work	11	**4,392,127**	2,752,024
Trade and bills receivables	12	**6,319,600**	5,912,181
Prepayments, deposits and other receivables		**1,166,374**	651,301
Pledged bank deposits		**110,803**	88,978
Cash and bank balances		**3,686,553**	7,509,245
		17,536,882	18,640,683
CURRENT LIABILITIES			
Trade and bills payables	13	**5,155,550**	4,341,111
Amount due to customers for contract work	11	**1,106,998**	2,318,731
Other payables and accruals		**2,634,518**	2,808,160
Interest-bearing bank borrowings		**56,738**	421,695
Tax payable		**77,463**	230,719
Dividend payables		**240,801**	920
		9,272,068	10,121,336
NET CURRENT ASSETS		**8,264,814**	8,519,347
TOTAL ASSETS LESS CURRENT LIABILITIES		**10,882,075**	10,886,427

(Continued)

Condensed Consolidated Balance Sheet (continued)

(Prepared under Hong Kong accounting standards)
30 June 2005

	30 June 2005 *(Unaudited)* *RMB'000*	31 December 2004 *(Audited)* *RMB'000*
		(Restated)
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**574,695**	1,025,262
Provision for retirement benefits	**28,923**	28,923
Other long-term payables	**121,020**	136,710
	724,638	1,190,895
	10,157,437	9,695,532
CAPITAL AND RESERVES		
Equity attributable to equity of holders of the parent:		
Issued capital	**959,522**	959,522
Reserves	**8,671,767**	8,017,750
Proposed final dividend	**—**	239,880
	9,631,289	9,217,152
Minority interests	**526,148**	478,380
	10,157,437	9,695,532

Hou Weigui
Director

Yin Yimin
Director

Condensed Consolidated Statement of Changes in Equity — Unaudited

(Prepared under Hong Kong accounting standards)
For the six months ended 30 June 2005

	Attributable to equity holders of the parent								
	Issued share capital *RMB'000*	**Capital reserve** *RMB'000*	**Statutory reserves** *RMB'000*	**Exchange fluctuation reserve** *RMB'000*	**Retained profits** *RMB'000*	**Proposed final dividend** *RMB'000*	**Total** *RMB'000*	**Minority interests** *RMB'000*	**Total** *RMB'000*
At 1 January 2005	959,522	5,462,515	985,356	3,786	1,566,093	239,880	9,217,152	478,380	9,695,532
Exchange realignment and net gains and losses not recognised in the profit and loss account	—	—	—	(6,342)	—	—	(6,342)	(448)	(6,790)
Profit for the period	—	—	—	—	660,359	—	660,359	81,621	741,980
Final 2004 dividend declared	—	—	—	—	—	(239,880)	(239,880)	—	(239,880)
Share of dividend	—	—	—	—	—	—	—	(20,990)	(20,990)
Disposal of subsidiaries	—	—	—	—	—	—	—	(11,555)	(11,555)
Capital injection by minority interests	—	—	—	—	—	—	—	(860)	(860)
At 30 June 2005	959,522	5,462,515*	985,356*	(2,556)*	2,226,452*	—	9,631,289	526,148	10,157,437
At 1 January 2004	667,296	2,079,104	720,208	1,043	932,091	200,188	4,599,930	226,553	4,826,483
Issue of bonus shares	133,459	—	—	—	(133,459)	—	—	—	—
Profit for the period	—	—	—	—	724,059	—	724,059	121,165	845,224
Transfer from retained profits	—	—	431	—	(431)	—	—	—	—
Final 2003 dividend declared	—	—	—	—	—	(200,188)	(200,188)	—	(200,188)
Capital injection by minority interests	—	—	—	—	—	—	—	43,931	43,931
Share of pre-acquisition reserve	—	—	—	—	—	—	—	5,869	5,869
Share of dividend	—	—	—	—	—	—	—	(280)	(280)
Exchange realignment	—	—	—	59	—	—	59	(188)	(129)
At 30 June 2004	800,755	2,079,104	720,639	1,102	1,522,260	—	5,123,860	397,050	5,520,910
Reserves retained by:									
Company and subsidiaries	959,522	5,462,515	984,596	(2,680)	2,223,449	—	9,627,402	526,148	10,153,550
Jointly-controlled entities	—	—	760	124	2,895	—	3,779	—	3,779
Associates	—	—	—	—	108	—	108	—	108
At 30 June 2005	959,522	5,462,515	985,356	(2,556)	2,226,452	—	9,631,289	526,148	10,157,437
Company and subsidiaries	800,755	2,079,104	719,879	1,016	1,520,654	—	5,121,408	397,050	5,518,458
Jointly-controlled entities	—	—	760	86	890	—	1,736	—	1,736
Associates	—	—	—	—	716	—	716	—	716
At 30 June 2004	800,755	2,079,104	720,639	1,102	1,522,260	—	5,123,860	397,050	5,520,910

* These reserve accounts comprise the consolidated reserves of approximately RMB8,671,767,000 (30 June 2004: RMB4,323,105,000) in the consolidated balance sheet.

Condensed Consolidated Cash Flow Statement

(Prepared under Hong Kong accounting standards)
For the six months ended 30 June 2005

	For the six months ended 30 June	
	2005	**2004**
	(Unaudited)	***(Audited)***
	RMB'000	***RMB'000***
Net cash outflow from operating activities	**(2,579,465)**	(9,132)
Net cash outflow from investing activities	**(430,634)**	(254,354)
Net cash inflow/(outflow) from financing activities	**(806,394)**	517,714
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(3,816,493)**	254,228
Cash and cash equivalents at beginning of period	**7,509,245**	3,572,867
Effect on foreign exchange rate changes, net	**(6,199)**	305
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**3,686,553**	3,827,400
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**3,233,431**	3,757,044
Non-pledged time deposits with original maturity of less than three months when acquired	**453,122**	70,356
	3,686,553	3,827,400

Notes to the Condensed Consolidated Interim Financial Statements

(Prepared under Hong Kong accounting standards)
For the six months ended 30 June 2005

1. CORPORATE INFORMATION

The registered office of ZTE Corporation (the "Company") is located at ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen 518057, the People's Republic of China (the "PRC").

During the six months ended 30 June 2005, the Company and its subsidiaries (the "Group") were principally involved in the design, development, manufacture and sale of telecommunications systems equipment and solutions.

In the opinion of the directors, the ultimate holding company is Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited ("Zhongxingxin"), a limited liability company registered in the PRC.

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2004, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), HKASs and Interpretations, herein collectively referred to as the "Hong Kong accounting standards" that affect the Group and are adopted for the first time for the current period's financial statements:

- HKAS 1 "Presentation of Financial Statements"
- HKAS 2 "Inventories"
- HKAS 7 "Cash Flow Statements"
- HKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"
- HKAS 10 "Events after the Balance Sheet Date"
- HKAS 11 "Construction Contracts"
- HKAS 12 "Income Taxes"
- HKAS 14 "Segment Reporting"
- HKAS 16 "Property, Plant and Equipment"
- HKAS 17 "Leases"
- HKAS 18 "Revenue"
- HKAS 19 "Employee Benefits"
- HKAS 20 "Accounting for Government Grants and Disclosure of Government Assistance"
- HKAS 21 "The Effects of Changes in Foreign Exchange Rates"
- HKAS 23 "Borrowing Costs"
- HKAS 24 "Related Party Disclosures"
- HKAS 27 "Consolidated and Separate Financial Statements"
- HKAS 28 "Investments in Associates"
- HKAS 31 "Interests in Joint Ventures"
- HKAS 32 "Financial Instruments: Disclosure and Presentation"
- HKAS 33 "Earnings per Share"
- HKAS 34 "Interim Financial Reporting"
- HKAS 36 "Impairment of Assets"
- HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"
- HKAS 38 "Intangible Assets"

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

- HKAS 39 "Financial Instruments: Recognition and Measurement"
- HKFRS 3 "Business Combinations"
- HKAS-INT-10 "Government Assistance — No Specific Relation to Operating Activities (HKAS 20)"
- HKAS-INT-13 "Jointly Controlled Entities — Non-Monetary Contributions by Venturers."
- HKAS-INT-15 "Operating Leases — Incentives"
- HKAS-INT-21 "Income Taxes — Recovery of Revalued Non-Depreciable Assets"
- HKAS-INT-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease"
- HKAS-INT-29 "Disclosure — Service Concession Arrangements"
- HKFRS-INT-4 "Determining whether an Arrangement contains a Lease"

The adoption of HKASs 1, 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 20, 21, 23, 27, 28, 31, 33, 34, 37, 38, HKAS-INT-10, 13, 15, 21, 27, 29 and HKFRS-INT-4 has had no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated financial statements. The impact of adopting the other HKFRSs and HKASs is summarised as follows:

(a) HKAS 17 — Leases

In prior periods, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from fixed assets to prepaid land premiums/land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the condensed consolidated income statement and retained earnings. The comparatives on the condensed consolidated balance sheet as at 31 December 2004 have been restated to reflect the reclassification of leasehold land.

(b) HKFRS 3 — Business Combinations, and HKAS 36 — Impairment of Assets

In prior periods, goodwill arising on acquisitions was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets, except to the extent it related to expectations of future losses and expenses that were identified in the acquisition plan and that could be measured reliably, in such case, it was recognised as income in the consolidated income statement when the future losses and expenses were recognised.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) HKFRS 3 — Business Combinations, and HKAS 36 — Impairment of Assets (continued)

Upon the adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in a subsequent period.

Any excess of the Group's interest in the net fair values of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries and associates (previously referred to as "negative goodwill"), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding entry to the cost of goodwill and to derecognise the carrying amounts of negative goodwill (including that remaining in consolidated capital reserve) against retained earnings.

The effects of the above changes are summarised below:

- accumulated amortisation of goodwill arising on acquisition of subsidiaries and minority interests, and jointly-controlled entities as at 1 January 2005 of RMB8,309,000, have been eliminated with a corresponding decrease in the respective cost of goodwill at that date;

In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

(c) HKAS 24 affects the identification of related parties and the disclosure of related party transactions.

(d) HKAS 32 and HKAS 39 — Financial Instruments

Equity securities
In prior periods, the Group classified its investments in equity securities as long-term investments which were held for non-trading purposes and were stated at cost less any impairment losses.

Upon the adoption of HKASs 32 and 39, these securities are classified as available-for-sale investments. Available-for-sale investments are those non-derivative investments in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other categories of financial assets as defined in HKAS 39. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) HKAS 32 and HKAS 39 — Financial Instruments (continued)

Equity securities (continued)
The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis and option pricing models.

When the fair value of unlisted equity securities cannot be reliably measured because (1) the variability in the range of reasonable fair value estimates is significant for that investment, or (2) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost.

The Group assesses at each balance sheet date whether there is any objective evidence that an available-for-sale investment is impaired as a result of one or more events that occurred after the initial recognition of the assets (''loss events''), and that loss event has an impact on the estimated future cash flows that can be reliably estimated.

If there is objective evidence of impairment, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in the income statement. The amount of the loss recognised in the income statement shall be the difference between the acquisition cost and current fair value, less any impairment loss on that available-for-sale investment previously recognised in the income statement.

HKAS 39 has no material impact on the condensed consolidated financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

3. SEGMENT INFORMATION

An analysis of the Group's revenue and results by business and geographical segments for the six months ended 30 June 2005 is as follows:

(a) Business segments

	Wireless communications		Wireline switch and access		Optical and data communications		Handsets		Telecommunications software systems, services and other products		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2005 *(Unaudited)* *RMB'000*	2004 *(Audited)* *RMB'000*	2005 *(Unaudited)* *RMB'000*	2004 *(Audited)* *RMB'000*	2005 *(Unaudited)* *RMB'000*	2004 *(Audited)* *RMB'000*	2005 *(Unaudited)* *RMB'000*	2004 *(Audited)* *RMB'000*	2005 *(Unaudited)* *RMB'000*	2004 *(Audited)* *RMB'000*	2005 *(Unaudited)* *RMB'000*	2004 *(Audited)* *RMB'000*
Segment revenue:												
Contract revenue from external customers	**4,698,010**	4,497,480	**720,579**	1,305,494	**1,491,294**	1,150,505	**—**	—	**1,069,867**	565,693	**7,979,750**	7,519,172
Sale of goods and services	**—**	—	**—**	—	**—**	—	**2,214,613**	2,603,702	**108,629**	56,088	**2,323,242**	2,659,790
Total	**4,698,010**	4,497,480	**720,579**	1,305,494	**1,491,294**	1,150,505	**2,214,613**	2,603,702	**1,178,496**	621,781	**10,302,992**	10,178,962
Segment results	**1,484,583**	1,116,688	**248,842**	539,736	**163,975**	154,064	**104,043**	196,534	**294,642**	281,387	**2,296,085**	2,288,409
Interest and unallocated gains											**280,921**	261,774
Unallocated expenses											**(1,686,210)**	(1,576,757)
Profit from operating activities											**890,796**	973,426
Finance costs											**(74,805)**	(58,902)
Share of profit and losses of:												
Jointly-controlled entities											**1,191**	661
Associates											**(822)**	(182)
Profit before tax											**816,360**	915,003
Tax											**(74,380)**	(69,779)
Profit for the period											**741,980**	845,224
Attributable to:												
Equity holders of the parent											**660,359**	724,059
Minority interests											**81,621**	121,165

(b) Geographical segments

	The PRC		Asia (excluding the PRC)		Africa		Others		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2005 *(Unaudited)* *RMB'000*	2004 *(Audited)* *RMB'000*	2005 *(Unaudited)* *RMB'000*	2004 *(Audited)* *RMB'000*	2005 *(Unaudited)* *RMB'000*	2004 *(Audited)* *RMB'000*	2005 *(Unaudited)* *RMB'000*	2004 *(Audited)* *RMB'000*	2005 *(Unaudited)* *RMB'000*	2004 *(Audited)* *RMB'000*
Segment revenue:										
Contract revenue from external customers	**5,267,957**	6,213,135	**1,715,814**	499,925	**932,230**	780,179	**63,749**	25,933	**7,979,750**	7,519,172
Sale of goods and services	**1,887,823**	2,602,159	**275,654**	1,486	**108,629**	56,088	**51,136**	57	**2,323,242**	2,659,790
	7,155,780	8,815,294	**1,991,468**	501,411	**1,040,859**	836,267	**114,885**	25,990	**10,302,992**	10,178,962

4. TURNOVER AND OTHER REVENUE

Turnover represents the aggregate of an appropriate proportion of contract revenue from telecommunications systems contracts and the invoiced value of goods and services sold net of value-added tax ("VAT") and after allowances for goods returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

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

	For the six months ended 30 June	
	2005	**2004**
	(Unaudited)	***(Audited)***
	RMB'000	***RMB'000***
Turnover		
Telecommunications systems contracts	**7,979,750**	7,519,172
Sale of goods and services	**2,323,242**	2,659,790
	10,302,992	10,178,962
Other revenue		
Government grants	**119,406**	15,402
Sale of scrap materials	**—**	26,790
Service fees	**3,037**	5,723
VAT subsidies, exemptions and refunds#	**120,528**	182,030
	242,971	229,945
Gains		
Negative goodwill recognised	**—**	4,770
Gain on disposal of short-term investments	**—**	12,183
Gain on disposal of subsidiaries	**3,358**	—
	3,358	16,953
	246,329	246,898

During the six months ended 30 June 2005, the Company received VAT subsidies on the amount of VAT paid for high-technology products as approved by the Shenzhen Economic and Trade Bureau (深圳市經濟貿易局), Shenzhen Science and Technology Bureau (深圳市科技局), Shenzhen Finance Bureau (深圳市財政局), Shenzhen State Tax Bureau (深圳市國家税務局) and Shenzhen Local Tax Bureau (深圳市地方税務局). In addition, for the six months ended 30 June 2005, Shenzhen Zhongxing Software Company, Limited ("Zhongxing Software"), being a designated software enterprise, was entitled to VAT refunds on the effective VAT rate in excess of 3% after the payment of statutory net output VAT of 17%. Such VAT refunds were approved by the Shenzhen State Tax Bureau (深圳市國家税務局) and had been received by Zhongxing Software.

5. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2005 (Unaudited) RMB'000	2004 (Audited) RMB'000
Depreciation	169,802	116,028
Amortisation of intangible assets	38,422	43,897
Impairment of intangible assets	—	7,847
Amortisation of goodwill	—	3,421
Provision for doubtful debts	42,961	55,357
Provision for/(write back of) inventory obsolescence and net realisable value	(33,122)	137,745
Loss on disposal of fixed assets	5,284	4,936

6. FINANCE COSTS

	For the six months ended 30 June	
	2005 (Unaudited) RMB'000	2004 (Audited) RMB'000
Interest expense on bank loans wholly repayable:		
Within five years	16,171	31,104
Beyond five years	3,888	538
	20,059	31,642
Finance costs on factoring loans and bills discounted	54,746	27,260
	74,805	58,902

7. TAX

	For the six months ended 30 June	
	2005 (Unaudited) RMB'000	2004 (Audited) RMB'000
Group:		
Current — Hong Kong	2,258	3,723
Current — Mainland China		
Charge for the period	37,116	85,734
Current — Overseas	10,128	3,560
Deferred tax	24,878	(23,238)
Total tax charge for the year	74,380	69,779

7. TAX (continued)

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Under the relevant PRC income tax law, except for certain preferential treatment available to the Company and its subsidiaries, the Group's entities established in the PRC are subject to corporate income tax at a rate of 33% on their taxable income arrived at from the financial statements prepared in accordance with "Accounting Standards for Business Enterprises" and "Accounting System for Business Enterprises" and other related standards (collectively referred to as the "PRC GAAP").

The Company and its subsidiaries that are registered and operating in the Shenzhen Special Economic Zone of the PRC are entitled to a preferential corporate income tax rate of 15%.

On 31 July 1997, ZTE Kangxun Telecom Company, Limited ("Kangxun"), a major subsidiary of the Company was approved by the Shenzhen Local Tax Bureau to be exempted from corporate income tax for two years and a 50% relief in the three years thereafter starting from the first profitable year which was effective from 1 January 1997 until 31 December 2001. Kangxun was also certified as a high-technology enterprise on 1 August 2001. In December 2001, Kangxun obtained an approval from the Shenzhen Local Tax Bureau to extend the 50% relief from corporate income tax for a further three years effective from 1 January 2002 until 31 December 2004. Kangxun is subject to a corporate income tax rate of 15% commencing from 1 January 2005.

As a designated software enterprise, Zhongxing Software, a major subsidiary of the Company was approved as a new software enterprise and entitled to full exemption from corporate income tax for two years and a 50% relief in the three years thereafter starting from the first profitable year which was effective from 1 January 2003 until 31 December 2007. The corporate income tax rate applicable to ZTE Software was 7.5% during the current period.

ZTE Mobile Tech Co., Limited ("ZTE Mobile") is entitled to full exemption from corporate income tax for two years, starting from their first profitable year and a 50% relief in the three years thereafter. ZTE Mobile has not entered into their first profitable year since establishment.

8. DIVIDENDS

The directors of the Company do not recommend any payment of interim dividend for the six months ended 30 June 2005 (2004: Nil).

9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent for the six months ended 30 June 2005 of RMB660,359,000 (2004: RMB724,059,000) and the weighted average of 959,521,649 (2004: 800,755,200 ordinary shares as adjusted to reflect the bonus issue of 133,459,200 A shares on 5 May 2004) ordinary shares in issue during the period.

No diluted earnings per share amount has been presented as the Company did not have any dilutive potential ordinary shares during the period.

10. AVAILABLE-FOR-SALE INVESTMENTS

All available-for-sale investments of the Group are unlisted equity investments and the directors considered that the carrying value of the unlisted equity investments approximates their estimated fair value.

11. TELECOMMUNICATIONS SYSTEMS CONTRACTS

	30 June 2005 *(Unaudited)* *RMB'000*	**31 December 2004** *(Audited)* *RMB'000*
Amount due from customers for contract work	**4,392,127**	2,752,024
Amount due to customers for contract work	**(1,106,998)**	(2,318,731)
	3,285,129	433,293
Contract costs incurred plus recognised profits less recognised losses to date	**16,264,413**	15,327,336
Less: Progress billings	**(12,979,284)**	(14,894,043)
	3,285,129	433,293

12. TRADE AND BILLS RECEIVABLES

Progress payment for telecommunications systems contracts are normally made in accordance with the agreed payment schedule. The Group's trading terms with its major customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 90 days and is extendable up to two years depending on customer's credit worthiness. The credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

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

	30 June 2005 *(Unaudited)* *RMB'000*	**31 December 2004** *(Audited)* *RMB'000*
Within 6 months	**4,492,342**	4,252,421
Between 7 and 12 months	**1,311,641**	1,453,143
1 to 2 years	**507,287**	194,940
2 to 3 years	**4,025**	5,609
Over 3 years	**4,305**	6,156
	6,319,600	5,912,269
Current portion of trade and bills receivables	**(6,319,600)**	(5,912,181)
Long-term portion	**—**	88

12. TRADE AND BILLS RECEIVABLES (continued)

The balances due from the ultimate holding company, a jointly-controlled entity, an associate and related companies included in the above are as follows:

	30 June 2005 (Unaudited) RMB'000	31 December 2004 (Audited) RMB'000
The ultimate holding company	**169**	169
A jointly-controlled entity	**2,749**	2,354
An associate	**3,057**	4,197
Related companies	**9,340**	7,151
	15,315	13,871

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

13. TRADE AND BILLS PAYABLES

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

	30 June 2005 (Unaudited) RMB'000	31 December 2004 (Audited) RMB'000
Within 6 months	**5,058,633**	4,180,450
Between 7 and 12 months	**47,584**	61,260
1 to 2 years	**23,459**	68,391
2 to 3 years	**6,747**	8,200
Over 3 years	**19,127**	22,810
	5,155,550	4,341,111

The balances due to the ultimate holding company and related companies, included in the above are as follows:

	30 June 2005 (Unaudited) RMB'000	31 December 2004 (Audited) RMB'000
The ultimate holding company	**75,572**	51,168
Related companies	**95,671**	78,166
	171,243	129,334

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

14. OPERATING LEASE ARRANGEMENTS

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

At 30 June 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2005 (Unaudited) RMB'000	31 December 2004 (Audited) RMB'000
Within one year	**138,850**	74,350
In the second to fifth years, inclusive	**113,490**	67,542
After five years	**4,384**	7,431
	256,724	149,323

15. COMMITMENTS

In addition to the operating lease commitments detailed in note 14 above, the Group had the following commitments at the balance sheet date:

Capital commitments

	30 June 2005 (Unaudited) RMB'000	31 December 2004 (Audited) RMB'000
Land and buildings:		
Contracted, but not provided for	**222,776**	282,446

16. CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	30 June 2005 (Unaudited) RMB'000	31 December 2004 (Audited) RMB'000
Discounted bills	**31,181**	440,885
Factored trade receivables	**891,660**	691,744
Guarantees given to banks in respect of performance bonds	**1,461,311**	1,626,070
	2,384,152	2,758,699

16. CONTINGENT LIABILITIES (continued)

(b) On 26 April 2000, the Company approved and declared an one-off share bonus of approximately RMB34 million and RMB30 million to its then employees who had elected to participate in a Deferred Share Bonus Scheme (the "DSBS") with a term of either three years or five years. Pursuant to the DSBS, the total amount of bonus payable to each qualified employee was used to purchase a total of 1,884,250 A shares of the Company during 2001 and these A shares were locked up for a period of either three years or five years under the three years DSBS and five years DSBS until 20 April 2004 and 20 June 2006, respectively. The Company has guaranteed the employees that, upon disposal of these shares in 2004 and 2006, respectively, the disposal price would not be less than approximately RMB18.5 per share, after being adjusted for the Company's bonus issues in 2001, 2003 and 2004.

As at 30 June 2005, a total of 2,600,649 A shares are subject to the guaranteed disposal price.

In the opinion of the directors, any resulting liabilities arising from the guaranteed disposal price under the DSBS would not have any material adverse impact on the Group's financial statements. Therefore, no provision in respect of such guarantee has been made in the financial statements.

17. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC GAAP AND HONG KONG ACCOUNTING STANDARDS

The effects on the net profit and the shareholders' equity arising from material differences between the consolidated financial statements prepared under PRC GAAP and Hong Kong accounting standards are summarised as follows:

		For the six months ended 30 June	
		2005 *(Unaudited)* *RMB'000*	**2004** *(Unaudited)* *RMB'000*
Net Profit			
Net profit from ordinary activities attributable to shareholders under PRC GAAP		**687,663**	513,182
Add back/(deduct):			
Accounting standards differences			
Recognition of government grants	(i)	**(14,021)**	17,613
Recognition of deferred bonuses	(ii)	**—**	(79,000)
Provision for retirement benefits	(iii)	**—**	(874)
Deferred development costs	(iv)	**(13,689)**	(8,147)
Amortisation of goodwill	(v)	**406**	—
Other differences			
Difference in accounting estimates in respect of revenue recognised using the percentage of completion method for telecommunications systems contracts	(vi)	**—**	(507,436)
Recognition of income tax and deferred tax	(vii)	**—**	22,277
Difference in accounting estimates in respect of provisions for trade receivables, other receivables and prepayments and net realisable value of inventories	(viii)	**—**	555,896
Consolidation of subsidiaries	(ix)	**—**	(27,414)
Estimated useful lives of fixed assets	(x)	**—**	70,408
Accrual of performance bonuses	(xi)	**—**	167,554
Profit for the period attributable to equity holders of the parent under Hong Kong accounting standards		**660,359**	724,059

		30 June 2005 *(Unaudited)* *RMB'000*	**31 December 2004** *(Audited)* *RMB'000*
Shareholders' equity			
Shareholders' equity under PRC GAAP		**9,615,880**	9,174,439
Add back/(deduct):			
Accounting standards differences			
Recognition of government grants	(i)	**(8,872)**	5,149
Provision for retirement benefits	(iii)	**(28,923)**	(28,923)
Deferred development costs	(iv)	**52,798**	66,487
Amortisation of goodwill	(v)	**406**	—
Shareholders' equity under Hong Kong accounting standards		**9,631,289**	9,217,152

17. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC GAAP AND HONG KONG ACCOUNTING STANDARDS (continued)

(i) Government grants

Government grants for specific research and development projects are accounted for as specific payables under PRC GAAP. Whereas under Hong Kong accounting standards, such grants are accounted for as deferred income in the other payable or other long-term payable accounts.

Under PRC GAAP, the research and development costs are recognised as technology development costs in inventory to the extent of the granted amounts, and the specific payables thereof will be transferred to the inventory account to offset the technology development costs upon completion of the projects.

Under Hong Kong accounting standards, the deferred income is recognised as income over the periods necessary to match the grants on a systematic basis to the costs that they are intended to compensate.

(ii) Recognition of deferred bonuses

Under PRC GAAP, there is no specific standard, regulation or rule for the recognition of deferred bonuses. All the deferred bonuses are expensed as declared irrespective of whether or not the employee has qualified to be entitled to such bonuses.

Under Hong Kong accounting standards, the deferred bonuses are recognised when the employee is qualified to be entitled to the bonuses and charged to the income statement over the required service period.

(iii) Provision for retirement benefits

Under PRC GAAP, there is no specific standard, regulation or rules for the recognition of post-retirement benefits under defined retirement benefits plan. The costs of post-retirement benefits are expensed as incurred.

Under Hong Kong accounting standards, the costs of providing these benefits under the defined retirement benefits plan are actuarially determined and recognised over the employees' service period.

(iv) Deferred development costs

Under PRC GAAP, all research and development costs are charged to the income statement as incurred.

Under Hong Kong accounting standards, expenditures incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

17. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC GAAP AND HONG KONG ACCOUNTING STANDARDS (continued)

(v) Goodwill

Under PRC GAAP, goodwill arising from acquisition is amortised in the consolidated balance sheet over its estimated useful life of 10 years using the straight-line method.

Prior to the issuance of HKFRS 3 and HKAS 36, goodwill arising on acquisitions was amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

Upon the adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisitions is no longer amortised but subject to annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in a subsequent period.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding entry to the costs of goodwill.

(vi) Revenue recognition using the percentage of completion method

In the preparation of the financial statements under PRC GAAP for the year ended 31 December 2004, the stage of completion relating to the revenue recognition for telecommunications systems contracts is revised to be estimated by reference to the completion of the physical proportion of the work or the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Subsequent to the change of accounting estimates for the preparation of financial statements under PRC GAAP, there are no differences between the telecommunications systems contracts recorded under PRC GAAP and Hong Kong accounting standards.

(vii) Income tax and deferred tax

Due to the differences on accounting estimates and differences between PRC GAAP and Hong Kong accounting standards, differences in respect of revenue and profit before tax had arisen in the preparation of the Group's financial statements under PRC GAAP and Hong Kong accounting standards. Deferred tax is recognised to account for the effect of temporary differences on income tax.

(viii) Provisions

In the preparation of the financial statements under PRC GAAP for the year ended 31 December 2004, the Group had changed its accounting estimates during the year in respect of the provisions for trade receivables, other receivables and prepayments and net realisable value of inventories.

Subsequent to the change of accounting estimates for the preparation of financial statements under PRC GAAP, there are no differences between the provisions accounted for under PRC GAAP and Hong Kong accounting standards.

17. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC GAAP AND HONG KONG ACCOUNTING STANDARDS (continued)

(ix) Consolidation of subsidiaries

The differences represent historic discrepancies on the carrying values of interests in subsidiaries recorded by the Company under PRC GAAP as compared to the shareholders' equity and current account balances recorded in the financial statements of individual subsidiaries prepared under PRC GAAP or Hong Kong accounting standards.

(x) Estimated useful lives of fixed assets

In the preparation of the financial statements under PRC GAAP for the year ended 31 December 2004, the Group had changed its accounting estimates during the year in respect of useful lives of certain fixed assets.

Subsequent to the change of accounting estimates for the preparation of financial statements under PRC GAAP, there are no differences between the depreciation charged under PRC GAAP and Hong Kong accounting standards.

(xi) Accrual of performance bonuses

Performance bonuses were accrued upon approval in the preparation of the financial statements under Hong Kong accounting standards. Such performance bonuses were only charged to the income statement upon actual payment in 2004 and included in the financial statements prepared under PRC GAAP for the year ended 31 December 2004.

18. RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material related party transactions during the period:

Name of company	Nature of transaction	*Notes*	For the six months ended 30 June 2005 *RMB'000*	2004 *RMB'000*
The ultimate holding company				
Zhongxingxin and its subsidiaries, associates and jointly-controlled entities# (中興新及其附屬子公司，聯營公司及共同控制企業)	Purchase of raw materials	(a)	**233,120**	303,673
	Sale of finished goods	(b)	**—**	41,098
Shareholders of ultimate holding company				
Shenzhen Zhongxing WXT Equipment Company, Ltd and its subsidiaries, associates and jointly-controlled entities# (深圳中興維先通設備有限公司及其附屬子公司，聯營公司及共同控制企業)	Purchase of raw materials	(a)	**89,693**	59,278
	Sale of finished goods	(b)	**3,082**	557
Xian Microelectronics Technology Research Institute and its subsidiaries, associates and jointly-controlled entities# (西安微電子技術研究所及其附屬子公司，聯營公司及共同控制企業)	Purchase of raw materials	(a)	**4,474**	14,493
	Sale of finished goods	(b)	**10,551**	26,412
	Corporate guarantee	(c)	**—**	58,000
Joint-controlled entities				
Beijing Zhongxing Telecom Ltd. and its subsidiaries, associates and jointly-controlled entities# (北京中興新通訊設備有限公司及其附屬子公司，聯營公司及共同控制企業)	Purchase of raw materials	(a)	**89**	312
	Sale of finished goods	(b)	**9,780**	3,166
China Topssion Communication Co. Ltd.# (中移鼎訊通信股份有限公司)	Sale of finished goods	(b)	**10,924**	—
Associates				
Beijing Yuanjing Technology Co., Ltd.# (北京中興遠景科技有限公司)	Sale of finished goods	(b)	**2,822**	6,310
ZTEIC Design Co., Ltd.# (深圳市中興集成電路設計有限責任公司)	Purchase of raw materials	(a)	**11,386**	—
	Sale of finished goods	(b)	**4,258**	—
Shenzhen Weigao Semi-conductor Technology Co., Ltd.# (深圳市微高半導體科技有限公司)	Sale of finished goods	(b)	**3,267**	—
Entity controlled by key management personnel of the Group				
Chung Hing (Hong Kong) Development Company Limited# (中興香港發展有限公司)	Purchase of raw materials	(a)	**6,276**	—

18. RELATED PARTY TRANSACTIONS (continued)

(I) Transactions with related parties (continued)

Name of company	Nature of transaction	*Notes*	For the six months ended 30 June 2005 *RMB'000*	2004 *RMB'000*
Shareholder of a subsidiary				
The Government of the Democratic Republic of Congo	Corporate guarantee	(c)	**80,000**	80,000

\# The English names of these companies are directly translated from their Chinese names.

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

Notes:

(a) The purchases of raw materials were made in accordance with published prices and conditions similar to those offered by the supplier to its major customers.

(b) The sales of finished goods were made in accordance with published prices and conditions offered to the major customers of the Group.

(c) The guarantees in respect of bank borrowings were provided by related parties at nil consideration.

(II) Compensation of key management personnel of the Group

	For the six months ended 30 June 2005 *(Unaudited)* *RMB'000*	2004 *(Audited)* *RMB'000*
Short term employee benefits	**4,057**	3,650
Post-employment benefits	**—**	29
Total compensation paid to key management personnel	**4,057**	3,679

19. COMPARATIVE AMOUNTS

As further explained in note 2 to the interim financial statements, due to the adoption of new and revised Hong Kong accounting standards during the current period, the presentation of certain items and balances in the interim financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current period's presentation.

20. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the People's Bank of China announced the reform of the Renminbi exchange rate regime with effect from 22 July 2005. Due to the fluctuation of Renminbi, the Group may be exposed to exchange losses or gains on the assets and liabilities denominated in foreign currencies.

21. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 23 August 2005.