

(I) CORPORATE GOVERNANCE

1. The Company's corporate governance is generally in compliance with the relevant requirements of the China Securities Regulatory Commission.
2. **Compliance with the Code on Corporate Governance Practices**

Save as stated below, the Group had complied with all the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Hong Kong Stock Exchange Listing Rules:

Code Provision A.1.3: Notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. For all other board meetings, reasonable notice should be given.

Deviation: The Articles of Association (2005 Revised Version) provided for notice to be given 10 days prior to a regular Board meeting.

Explanation: The Articles of Association (2006 Revised Version) were approved at the 2005 Annual General Meeting held on 14 June 2006, providing for notices of meeting to be given 14 days before the commencement of regular Board of Directors meetings. As a result, there is no longer such deviation from the Code on Corporate Governance Practices.

3. Securities Transactions by Directors

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

4. Audit Committee

The Audit Committee of the Company has discussed with the management accounting standards and practices adopted by the Group, and has also discussed and reviewed the report, including the financial statements of the Group for the six months ended 30 June 2006 prepared in accordance with PRC GAAP and Hong Kong accounting standards, respectively.

(II) IMPLEMENTATION OF THE 2005 PROFIT DISTRIBUTION PLAN OF THE COMPANY

The 2005 profit distribution plan of the Company (a cash dividend payment of RMB2.50 (inclusive of tax) for every 10 shares based on the Company's total share capital of 959,521,650 shares as at 31 December 2005) was considered and approved at the 2005 annual general meeting held on 14 June 2006. Implementation of the plan was completed with the record date being 13 July 2006 and the ex-rights/ex-dividend date being 14 July 2006, for A shares. In respect of H shares, the record date was 12 May 2006, and dividend payment date was 14 July 2006. An announcement containing details of dividend payment for 2005 in respect of the Company's A shares and H shares was published in the China Securities Journal, Securities Times, Shanghai Securities News, The Standard and Hong Kong Economic Times on 7 July 2006.

(III) PROFIT DISTRIBUTION PROPOSAL AND PROPOSAL FOR CAPITAL INCREASE BY WAY OF TRANSFER FROM RESERVES FOR THE SIX MONTHS ENDED 30 JUNE 2006

The Company does not propose any profit distribution or capital increase by way of transfer from reserves for the six months ended 30 June 2006.

(IV) MATERIAL LITIGATION OR ARBITRATION OF THE GROUP COMMENCING OR SUBSISTING DURING THE REPORTING PERIOD

The Group was not subject to any material litigation or arbitration during the reporting period. Progress of other litigation and arbitration commenced in previous periods was as follows:

1. In November 2005, litigation was instituted by Beijing Success Communications and Electronic Engineering Co., Ltd. against the Company's subsidiary Yangzhou Zhongxing Mobile Telecom Equipment Co., Ltd. ("Yangzhou Zhongxing") and the Company, with a total claim amount of RMB71 million comprising RMB35 million as refund of an advanced payment and RMB36 million as reimbursement of accrued interests and compensation for other losses.

The case is currently undergoing the first trial procedure and the court hearing has yet to commence. As the case is currently under trial, the final outcome of the litigation cannot at this stage be ascertained with any reasonable certainty. Based on the legal opinion furnished by the Company's lawyers, the Directors are of the opinion that Yangzhou Zhongxing and the Company have sufficient and valid defences and any judgment awarded will not have any material adverse impact on the Group's financial position.

2. Litigation was instituted by the Group against Fairchild Semiconductor Corporation, with the court currently examining materials submitted by the two parties. The case is currently under trial.
3. In December 2005, a supplier of the Company alleged that the Company had breached its contract and infringed its intellectual property and claimed indemnity for a total amount of US\$36.45 million by way of overseas arbitration.

As at the date of this report, the arbitration tribunal had been formed, and the Company had filed its defences and made payment for arbitration fees, for which the arbitration authority had yet to issue an award. As the case is currently under trial, the final outcome of the arbitration cannot at this stage be ascertained with any reasonable certainty. Based on the legal opinion furnished by the Company's lawyers, the Directors are of the opinion that the Company has sufficient and valid defences and the outcome of the arbitration will not have any material adverse impact on the Group's financial position.

4. In August 2005, an Indian consultant firm issued an arbitration notice to the Company to claim indemnity for a total amount of approximately RMB10.736 million in respect of advisory fees, agency fees and related damages.

As at the date of this report, the arbitration tribunal has yet to issue an award. As the case is currently under trial, the final outcome of the arbitration cannot at this stage be ascertained with any reasonable certainty. Based on the legal opinion furnished by the Company's lawyers, the Directors are of the opinion that the Company has sufficient and valid defences and the outcome of the arbitration award would not have any material adverse impact on the Group's financial position.

5. An administrative penalty notice had been served upon Zhongxing Telecom Pakistan (Pvt) Ltd, a subsidiary of the Company (hereinafter the "Pakistan Subsidiary"), by the Rawalpindi Collectorate of Customs in respect of a claim of additional custom duties of approximately RMB23.9 million and a penalty of approximately RMB324 million for the misdeclaration of the imported goods by the Pakistan Subsidiary. The Committee for Alternate Dispute Resolution Islamabad (ADRC) appointed by the Central Board of Revenue (CBR) of Pakistan for the purpose of resolving the case submitted the final report of the committee (the "ADRC Report") to the CBR in September 2005. As of 30 June 2006, the CBR had yet to made any final decision and there had been no substantive progress for the dispute. Based on the legal opinion on the dispute furnished by the Company's lawyers and the ADRC Report, the Directors are of the opinion that the Company has sufficient and valid reasons to believe that the Central Board of Revenue will give a just ruling based on the ADRC Report and this matter would not have any material adverse impact on the Group's financial position.

(V) THE GROUP WAS NOT ENGAGED IN ANY MATERIAL ACQUISITION, DISPOSAL OR ASSET RESTRUCTURING DURING THE REPORTING PERIOD.

(VI) THE GROUP'S SIGNIFICANT CONNECTED TRANSACTIONS UNDER DOMESTIC LAWS AND REGULATIONS

1. The Group did not conduct any purchases or sales of goods or provide labour services to connected parties with amounts exceeding 5% of the latest audited net asset value during the reporting period. Please refer to Note VII to the financial statements prepared under PRC GAAP for details of connected transactions.

During the reporting period, ongoing connected transactions (as defined in the Rules Governing the Listing of Stocks on Shenzhen Stock Exchange) conducted by the Group included the purchase of raw materials from and sales of products to connected parties by the Company and its subsidiaries. The prices at which the connected transactions were conducted had been reached by the parties through arm's length negotiations in accordance with normal commercial terms. The prices at which the Group made purchases from connected parties were not higher than the prices at which the connected parties sold similar products to other parties in similar quantities. The prices at which the Group sold its products to its connected parties were not lower than the prices at which the Company sold similar products to other parties in similar quantities. Moreover, such connected transactions did not have any adverse impact on the Group's profit. The Company was not dependent on the connected parties, and the connected transactions incurred did not affect the independence of the Company in any way.

Details of the implementation of the Group's ongoing connected transactions during the reporting period are set out in the following table (For details of basic information of the connected parties, their connected relationships with the Group, basic information on the connected transactions agreements between the Group and the connected parties, estimated transaction amounts for 2006 under the agreements, impact of the connected transactions on the Group and review of the connected transactions by the Board of Directors or General Meeting, please refer to the "Announcement Regarding Ongoing Connected Transactions" published by the Company in the China Securities Journal, Securities Times, Shanghai Securities News, The Standard and Hong Kong Economic Times on 7 April 2006.

MATERIAL MATTERS

Classification of transaction	Member of the Group (party to connected transaction)	Connected party (counterparty to connected transaction)	Subject matter	Pricing basis	Total amount for January to June 2006 (RMB in 10,000) (excluding VAT)	As a percentage of all transactions in the same category	Settlement	Whether different from estimated conditions
Purchase of raw materials	ZTE Kangxun	Zhongxingxin and its subsidiaries Zhongxing Xindi and Zhongxing Xinyu	Various telecommunications products such as cabinets, cases, distribution frames, soft circuit boards and other raw materials	Consistent with market prices (as per contract)	19,507	2.86%	Banker's acceptance bills	No
	ZTE Kangxun	Xi'an Microelectronics	Circuit protectors and other electronic products	Consistent with market prices (as per contract)	34	0.005%	Banker's acceptance bills	No
	ZTE Kangxun	Zhongxing WXT and its investee entity Shenzhen Gaodonghua Communication Technique Co., Ltd	IC, connector assemblies, optical devices, modules and other ancillary equipment	Consistent with market prices (as per contract)	3,914	0.57%	Banker's acceptance bills	No
	ZTE Kangxun	Chung Hing Hong Kong	Printers and other electronic products	Consistent with market prices (as per contract)	25	0.004%	Banker's acceptance bills	No
	Lead	Zhongxing Xinyu	Soft circuit boards and other products	Consistent with market prices (as per contract)	135	0.02%	Banker's acceptance bills	No
	ZTE Kangxun	Shenzhen Zhongxing Information Technology Company, Limited	Dispatch exchange systems, integrated police alarm command dispatch systems, pre-hospitalisation first aid command dispatch systems	Consistent with market prices (as per contract)	424	0.06%	Banker's acceptance bills	No
Sales of products	The Company	Xi'an Microelectronics	Handsets and other products	Consistent with market prices (as per contract)	0	0	Banker's acceptance bills	No
	ZTE Kangxun	Zhongxing WXT	IC and other products	Consistent with market prices (as per contract)	448	0.04%	Banker's acceptance bills	No
	The Company and ZTE Kangxun	Shenzhen Zhongxing Information Technology Company, Limited	Optical transmission systems, power supply equipment, data products and conferencing TV	Consistent with market prices (as per contract)	73	0.01%	Banker's acceptance bills	No

- The Company did not enter into any connected transactions relating to any material acquisition or disposal of assets during the reporting period.
- The debtors and creditors between the Company and connected parties during the reporting period represented balances arising from ordinary business transactions that did not have any material impact on the Company. There were no connected guarantees between the Company and its connected parties during the reporting period.
- There was no misappropriation of the Company's funds by its controlling shareholder, its subsidiaries and other connected parties during the reporting period, and there were no connected transactions involving the provision of funds to any connected parties by the Company or to the Company by any connected parties.

(VII) MATERIAL CONTRACTS OF THE GROUP

1. There was no material trust, contract management or lease of assets of other companies by the Group or of the Group's assets by other companies commencing or subsisting during the reporting period.
2. External guarantees:
 - (1) External guarantees provided by the Group during the reporting period were as follows:

External guarantees provided by the Company (excluding guarantees in favour of subsidiaries)						
Guaranteed party	Date of incurrence (date of execution of relevant agreements)	Amounts guaranteed	Type of guarantee	Term	Whether fully performed	Whether provided in favour of connected parties (Yes/No)
N/A	N/A	0	N/A	N/A	N/A	N/A
Total amount guaranteed during the reporting period					0	
Total balance of amount guaranteed at the end of the reporting period (A)					0	
Guarantees provided in favour of subsidiaries						
Total amount guaranteed in favour of subsidiaries during the reporting period (Note)					RMB8.64 million	
Total balance of amount guaranteed in favour of subsidiaries at the end of the reporting period (B)					RMB8.64 million	
Total amount guaranteed by the Company (including guarantees in favour of subsidiaries)						
Total amount guaranteed (A+B)					RMB8.64 million	
Total guaranteed amount as a percentage of net assets of the Company at the end of the reporting period					0.08%	
of which:						
Amounts of guarantees provided in favour of shareholders, de facto controllers and their connected parties (C)					0	
Amount of debt guarantee provided directly or indirectly in favour of parties with a gearing ratio exceeding 70% (D)					0	
Amount of total guarantee exceeding 50% of net assets (E)					0	
Aggregated amount of the three guarantee amounts stated above* (C+D+E)					0	

Note: This guarantee was provided by Anhui Wantong Iron Tower Installation Company, Limited and Anhui Yalong Communications Technology Company, Ltd., both subsidiaries of the Company, in favour of Anhui Wantong Posts and Telecommunications Company, Limited, another subsidiary of the Company.

MATERIAL MATTERS

(2) Progress of previously granted guarantees during the reporting period

In January 2005, the Company performed its guarantee to make a repayment of RMB3.50 million on behalf of Chengdu Information Port Company Limited. As at the end of the reporting period, Juyou Industrial Group Limited, as counter-guarantor, had made a repayment of RMB1.40 million to the Company, and an amount of RMB2.10 million remained outstanding. The Group will continue to actively procure the settlement of the outstanding amount. (Please refer to the 2005 annual report of the Group for details of the guarantee).

3. Specific explanation and independent opinion furnished by the Independent Directors Mr. Zhu Wuxiang, Mr. Chen Shaohua, Mr. Qiao Wenjun, Mr. Mi Zhengkun and Mr. Li Jin on the transaction amounts between the Company and its connected parties and the Company's external guarantees:
 - The transaction amounts between the Company and its controlling shareholder and other connected parties were incurred in the course of normal sales and purchases of goods, which had been based on fair market prices without acting adversely to the interests of the Company. There was no misappropriation of the Company's funds by the Company's controlling shareholder and its subsidiaries and other connected parties.
 - The Company exercised strict control over the provision of external guarantees in accordance with relevant requirements of the Articles of Association and did not enter into any illicit guarantees or connected party guarantees.
 - After careful review of the "Notice Concerning the Regulation of External Guarantees Provided by Listed Companies" (Zheng Jian Fa [2005] No. 120) and "Notice Regarding Certain Issues on Regulating Transaction Amounts Between Listed Companies and Connected Parties and External Guarantees Provided by Listed Companies" (Zheng Jian Fa [2003] No. 56), the Independent Directors of the Company are of the opinion that the Company has diligently implemented relevant provisions of the Notices without any violations.
4. There was no entrusted management of the Group's cash assets of a material scale commencing or subsisting during the reporting period.

(VIII) UNDERTAKINGS

1. Undertakings relating to the Share Reform

The nine holders of shares of the Company subject to lock-up have given statutory undertakings and Zhongxingxin, the largest shareholder of the Company, has given a special undertaking during the A Share Reform in 2005. Please refer to Notes 1 and 2 to the paragraph headed "Shareholdings of shareholders subject to lock-up and terms of lock-up" under the section "Changes in Share Capital and Shareholdings of Substantial Shareholders" on page 107 of this report.

2. As at the end of the reporting period, the nine holders of shares of the Company subject to lock-up had strictly complied with the above undertakings without any violations.
3. There were no other undertakings by the Company or shareholders interested in 5% or more of the shares in the Company.

(IX) DURING THE REPORTING PERIOD, NONE OF THE COMPANY, THE BOARD OF DIRECTORS OF THE COMPANY AND ITS DIRECTORS WAS SUBJECT TO INVESTIGATION, UNDER ADMINISTRATIVE PENALTY OR CENSURE BY THE CHINA SECURITIES REGULATORY COMMISSION OR PUBLICLY REPRIMANDED BY THE SHENZHEN STOCK EXCHANGE.

(X) INDEX OF INFORMATION DISCLOSURE

Date	Newspaper	Page/section	Subject of announcement
7 April 2006	China Securities Journal Shanghai Securities News Securities Times	C09 C25 C25	2005 Annual Report Summary and Results Announcement
7 April 2006	China Securities Journal Shanghai Securities News Securities Times	C12 C25 C28	Announcement regarding Ongoing Connected Transactions
7 April 2006	China Securities Journal Shanghai Securities News Securities Times	C11 C25 C25	Announcement of the Resolutions Passed at the Sixteenth Meeting of the Third Session of the Board of Directors
7 April 2006	China Securities Journal Shanghai Securities News Securities Times	C12 C26 C30	Notice of 2005 Annual General Meeting
7 April 2006	China Securities Journal Shanghai Securities News Securities Times	C12 C26 C30	Announcement of the Resolutions Passed at the Eighth Meeting of the Third Session of the Supervisory Committee
18 April 2006	China Securities Journal Shanghai Securities News Securities Times	C08 C80 C9	Warning Announcement in relation to 2006 First Quarterly Results
21 April 2006	China Securities Journal Shanghai Securities News Securities Times	C32 C57 C8	Clarification Announcement
26 April 2006	China Securities Journal Shanghai Securities News Securities Times	C12 B16 C17	2006 First Quarterly Report
27 May 2006	China Securities Journal Shanghai Securities News Securities Times	C16 B16 C4	Reminder Announcement for 2005 Annual General Meeting
15 June 2006	China Securities Journal Shanghai Securities News Securities Times	C004 B15 C8	Announcement in respect of Resolutions of 2005 Annual General Meeting
4 July 2006	China Securities Journal Shanghai Securities News Securities Times	C004 B24 C16	Clarification Announcement
7 July 2006	China Securities Journal Shanghai Securities News Securities Times	C001 B25 C8	Announcement of Dividend Payment for 2005

Note: The above table includes information disclosure in China only.