

CONDENSED CONSOLIDATED INCOME STATEMENT

(Prepared under Hong Kong accounting standards)

For the six months ended 30 June 2006

	Notes	For the six months ended 30 June 2006 (Unaudited) RMB'000	For the six months ended 30 June 2005 (Unaudited) RMB'000
Revenue	4	10,490,529	10,302,992
Cost of sales		(6,823,951)	(6,521,433)
Gross profit		3,666,578	3,781,559
Other income and gains	4	280,902	280,921
Research and development costs		(1,255,474)	(1,144,343)
Selling and distribution costs		(1,597,722)	(1,485,474)
Administrative expenses		(651,927)	(492,006)
Other operating income/(expenses), net		64,241	(49,861)
Finance costs	5	(53,977)	(74,805)
Share of profits and losses of:			
Jointly-controlled entities		—	1,191
Associates		694	(822)
PROFIT BEFORE TAX	6	453,315	816,360
Tax	7	(52,017)	(74,380)
PROFIT FOR THE PERIOD		401,298	741,980
ATTRIBUTABLE TO:			
Equity holders of the parent		347,058	660,359
Minority interests		54,240	81,621
		401,298	741,980
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	9	RMB0.36	RMB0.69

CONDENSED CONSOLIDATED BALANCE SHEET

(Prepared under Hong Kong accounting standards)

30 June 2006

Notes	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
NON-CURRENT ASSETS		
	2,608,216	2,470,965
Property, plant and equipment		
	54,374	55,062
Prepaid land premiums/land lease payments		
	301,633	335,835
Intangible assets		
	6,588	6,588
Investments in jointly-controlled entities		
	43,305	35,583
Investments in associates		
	43,488	43,288
Available-for-sale equity investments	10	
Long-term trade receivables	12	307,666
Factored long-term trade receivables	13	687,765
Deferred tax assets	62,888	59,587
	4,015,818	4,002,339
Total non-current assets		
CURRENT ASSETS		
	1,401	1,418
Prepaid land premiums/land lease payments		
	2,597,251	2,240,327
Inventories		
	5,249,600	4,689,157
Amount due from customers for contract work	11	
Trade and bills receivables	12	4,686,775
Factored trade receivables	13	36,416
Prepayments, deposits and other receivables		
	1,258,912	1,188,313
Loan receivables	14	46,165
Pledged bank deposits		
	127,982	175,899
Cash and cash equivalents	2,852,727	5,397,233
	18,491,529	18,461,703
Total current assets		
CURRENT LIABILITIES		
	6,034,449	6,269,792
Trade and bills payables	15	
	509,624	733,455
Amount due to customers for contract work	11	
Other payables and accruals		
	680,700	599,695
Interest-bearing bank borrowings		
	36,040	36,416
Bank advances on factored trade receivables	13	
Tax payable		
	83,589	114,672
Dividend payable		
	386,183	163,008
	10,052,434	10,817,175
Total current liabilities		
	8,439,095	7,644,528
NET CURRENT ASSETS		
	12,454,913	11,646,867
TOTAL ASSETS LESS CURRENT LIABILITIES		

CONDENSED CONSOLIDATED BALANCE SHEET

(Prepared under Hong Kong accounting standards)

30 June 2006

	Notes	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		680,000	80,000
Bank advances on factored long-term trade receivables	13	692,483	687,765
Provision for retirement benefits		30,459	30,459
Other long-term payables		145,516	127,402
Total non-current liabilities		1,548,458	925,626
Net assets		10,906,455	10,721,241
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		959,522	959,522
Reserves		9,391,149	9,051,110
Proposed final dividend		—	239,880
		10,350,671	10,250,512
Minority interests		555,784	470,729
Total equity		10,906,455	10,721,241

Hou Weigui
Director

Yin Yimin
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared under Hong Kong accounting standards)

For the six months ended 30 June 2006

	Attributable to equity holders of the parent								
	Issued	Capital	Statutory	Exchange	Retained	Proposed		Minority	Total
	share	reserve	reserves	fluctuation	profits	final	Total	interests	Equity
	capital	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006	959,522	5,506,424	1,264,060	(15,981)	2,296,607	239,880	10,250,512	470,729	10,721,241
Exchange realignments	—	759	—	(7,778)	—	—	(7,019)	—	(7,019)
Profit for the period	—	—	—	—	347,058	—	347,058	54,240	401,298
2005 final dividend declared	—	—	—	—	—	(239,880)	(239,880)	—	(239,880)
Dividend attributable to minority shareholders	—	—	—	—	—	—	—	(1,450)	(1,450)
Capital contributions by minority shareholders	—	—	—	—	—	—	—	32,265	32,265
At 30 June 2006	959,522	5,507,183*	1,264,060*	(23,759)*	2,643,665*	—	10,350,671	555,784	10,906,455
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 realignments	—	—	—	(6,342)	—	—	(6,342)	(448)	(6,790)
Profit for the period	—	—	—	—	660,359	—	660,359	81,621	741,980
2004 final dividend declared	—	—	—	—	—	(239,880)	(239,880)	—	(239,880)
Dividend attributable to minority shareholders	—	—	—	—	—	—	—	(20,990)	(20,990)
Disposal of subsidiaries	—	—	—	—	—	—	—	(11,555)	(11,555)
Capital contributions by minority shareholders	—	—	—	—	—	—	—	(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

* These reserve accounts comprise the consolidated reserves of approximately RMB9,391,149,000 (30 June 2005: RMB8,671,767,000) in the condensed consolidated balance sheet.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Prepared under Hong Kong accounting standards)

For the six months ended 30 June 2006

	For the six months ended 30 June 2006 (Unaudited) RMB'000	For the six months ended 30 June 2005 (Unaudited) RMB'000
Net cash outflow from operating activities	(2,909,650)	(2,579,465)
Net cash outflow from investing activities	(307,311)	(430,634)
Net cash inflow/(outflow) from financing activities	681,005	(806,394)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,535,956)	(3,816,493)
Cash and cash equivalents at beginning of period	5,397,233	7,509,245
Effect on foreign exchange rate changes, net	(8,550)	(6,199)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	2,852,727	3,686,553
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	2,765,214	3,233,431
Non-pledged time deposits with original maturity of less than three months	87,513	453,122
	2,852,727	3,686,553

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

For the six months ended 30 June 2006

1. CORPORATE INFORMATION

ZTE Corporation (the "Company") is a limited liability company incorporated in the People's Republic of China (the "PRC").

The registered office of the Company is located at ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen 518057, the PRC.

During the period, 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 parent and the ultimate holding company of the Group is Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited ("Zhongxingxin"), a limited liability company registered in the PRC.

2. SUMMARY OF 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 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements:

HKAS 21 Amendment	Net investment in a foreign operation
HKAS 39 Amendment	The Fair Value Option
HKAS 39 and HKFRS 4 Amendments	Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above new and revised HKFRSs has no material impact on the accounting policies of the Group and the methods of computation in the Group's financial statements.

3. SEGMENT INFORMATION

Segment information is presented by way of two segments: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating business are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) The wireless communications segment engages in the provision of systems integration and the sale of equipment for mobile phone network systems, primarily in respect of CDMA, GSM and wireless local access (PHS) systems.
- (b) The wireline switch and access segment engages in the manufacture and sale of wireline, circuitswitches and narrow-band access systems for fixed line phone systems.
- (c) The optical and data communications segment engages in the provision of DSL systems, SDH, WDM systems and softswitch systems, broadband routing switches, wireless access data products and other data communications products.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

For the six months ended 30 June 2006

3. SEGMENT INFORMATION (continued)

- (d) The handsets segment engages in the manufacture and sale of CDMA and GSM mobile phone handsets and wireless local access (PHS) handsets.
- (e) The telecommunications software systems, services and other products segment represented the provision of telecommunications software systems such as operation support systems and the provision of fee-based services.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers.

An analysis of the Group's revenue by business and geographical segments for the six months ended 30 June 2006 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	
	2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000	2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000	2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000	2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000	2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000	2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000
Segment revenue:												
Contract revenue from external customers	3,513,422	4,698,010	1,074,977	720,579	1,710,492	1,491,294	—	—	1,667,728	1,069,867	7,966,619	7,979,750
Sale of goods and services	—	—	—	—	—	—	2,134,076	2,214,613	389,834	108,629	2,523,910	2,323,242
Total	3,513,422	4,698,010	1,074,977	720,579	1,710,492	1,491,294	2,134,076	2,214,613	2,057,562	1,178,496	10,490,529	10,302,992
Segment results	954,864	1,484,583	265,764	248,842	368,625	163,975	151,736	104,043	387,370	294,642	2,128,359	2,296,085
Interest and unallocated gain											280,902	280,921
Unallocated expenses											(1,902,663)	(1,686,210)
Finance costs											(53,977)	(74,805)
Share of profit and losses of: Jointly controlled entities											—	1,191
Associates											694	(822)
Profit before tax											453,315	816,360
Tax											(52,017)	(74,380)
Profit for the period											401,298	741,980

(b) Geographical segment

	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		
	2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000	2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000	2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000	2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000	2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000	
Segment revenue:											
Contract revenue from external customers	4,766,620	5,267,957	1,208,834	1,715,814	1,384,102	932,230	607,063	63,749	7,966,619	7,979,750	
Sale of goods and services	1,762,392	1,887,823	537,804	275,654	32,290	108,629	191,424	51,136	2,523,910	2,323,242	
Total	6,529,012	7,155,780	1,746,638	1,991,468	1,416,392	1,040,859	798,487	114,885	10,490,529	10,302,992	

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

For the six months ended 30 June 2006

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's 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 income and gains is as follows:

	For the six months ended	
	30 June 2006 (Unaudited) RMB'000	30 June 2005 (Unaudited) RMB'000
Revenue		
Telecommunications systems contracts	7,966,619	7,979,750
Sale of goods and services	2,523,910	2,323,242
	10,490,529	10,302,992
Other income		
Sales of materials	4,449	—
Government grants	11,362	119,406
Service fees	22,063	3,037
VAT subsidies, exemptions and refunds#	212,644	120,528
Bank interest income	26,347	34,592
Others	4,037	—
	280,902	277,563
Gains		
Gain on disposal of a subsidiary	—	3,358
	—	3,358
	280,902	280,921

For the six months ended 30 June 2006, 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 (深圳市國家稅務局) and Nanjing State Tax Bureau (南京市國家稅務局) and had been received by Zhongxing Software

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

For the six months ended 30 June 2006

5. FINANCE COSTS

	For the six months ended	
	30 June 2006 (Unaudited) RMB'000	30 June 2005 (Unaudited) RMB'000
Interest on bank loans wholly repayable within five years	22,240	16,171
Interest on bank loans wholly repayable beyond five years	—	3,888
Finance costs on trade receivables factored and bills discounted	31,737	54,746
	53,977	74,805

6. PROFIT BEFORE TAX

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

	For the six months ended	
	30 June 2006 (Unaudited) RMB'000	30 June 2005 (Unaudited) RMB'000
Cost of inventories sold	6,826,915	6,423,483
Depreciation	216,937	169,802
Amortisation of intangible assets	53,192	38,422
Provision for bad and doubtful debts*	(48,643)	42,961
Provision for warranties**	19,000	22,598
Provision against inventory obsolescence and net realisable value**	(14,583)	(33,122)
Loss on disposal of items of property, plant and equipment*	3,765	5,284

* The provision for bad and doubtful debts and loss on disposal of items of property, plant and equipment are included in "Other operating income/(expenses), net" on the face of the condensed consolidated income statement.

** The provision for warranties and provision against inventory obsolescence and net realisable value are included in "Cost of sales" on the face of the condensed consolidated income statement.

7. TAX

	For the six months ended	
	30 June 2006 (Unaudited) RMB'000	30 June 2005 (Unaudited) RMB'000
Group:		
Current — Hong Kong	—	2,258
Current — Mainland China	50,091	37,116
Current — Overseas	5,143	10,128
Deferred tax	(3,217)	24,878
	52,017	74,380
Total tax charge for the period	52,017	74,380

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

For the six months ended 30 June 2006

7. TAX (continued)

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Nan Zi (2004) No. 0002) issued by the Nanshan State Tax Bureau in Shenzhen, Shenzhen Lead Communications Company, Limited, as a manufacturing enterprise, is entitled to corporate income tax exemption in the first and second profitable years and a 50% relief of corporate income tax in the third to fifth years. The current year was the fourth profitable year and the corporate income tax rate applicable was 7.5%.

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Nan Zi (2004) No. 0381) issued by the Nanshan State Tax Bureau in Shenzhen, Shenzhen Ruide Electronic Industrial Company, Limited, as a manufacturing enterprise, is entitled to corporate income tax exemption in the first and second profitable years and a 50% relief of corporate income tax in the third to fifth years. The current year was the third profitable year and the corporate income tax rate applicable was 7.5%.

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Long Heng Zi (2004) No. 0036) issued by the Longgang State Tax Bureau in Shenzhen, Shenzhen Kangquan Electromechanical Company, Limited, as a manufacturing enterprise, is entitled to corporate income tax exemption in the first and second profitable years and a 50% relief of corporate income tax in the third to fifth years. The current year was the third profitable year and the corporate income tax rate applicable was 7.5%.

Pursuant to the Document Shen Guo Shui Nan Jian Mian (2004) No. 0217) issued by the Nanshan State Tax Bureau in Shenzhen, Shenzhen Zhongxing Liwei Technology Company, Ltd. is entitled to corporate income tax exemption in the first and second profitable years and a 50% relief of corporate income tax in the third to fifth years. As the current year was the second profitable year for the company, it was exempted from corporate income tax.

Pursuant to the Document Shen Guo Shui Nan Jian Mian (2006) No. 0002) issued by the Nanshan State Tax Bureau in Shenzhen, Shenzhen Zhongxing Special Equipment Company, Limited is entitled to corporate income tax exemption in the first and second profitable years and a 50% relief of corporate income tax in the third to fifth years. As the current year was the second profitable year for the company, it was exempted from corporate income tax.

8. DIVIDENDS

The directors of the Company do not recommend any payment of interim dividend for the six months ended 30 June 2006 (2005: nil).

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

The calculation of basic earnings per share is based on the net profit for the period attributable to ordinary equity holders of the parent of RMB347,058,000 (2005: RMB660,359,000) and the weighted average number of 959,521,650 (2005: 959,521,650) ordinary shares in issue during the period.

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

10. AVAILABLE-FOR-SALE EQUITY INVESTMENTS

The fair values of these unlisted available-for-sale equity investments have been estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. The directors believe that the estimated fair values resulting from the valuation techniques, which are recorded in the condensed consolidated balance sheet, and the related changes in fair values, which are recorded in the condensed consolidated income statement are reasonable, and that they are the most appropriate value as at the balance sheet date.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

For the six months ended 30 June 2006

11. TELECOMMUNICATIONS SYSTEMS CONTRACTS

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Amount due from customers for contract work	5,249,600	4,689,157
Amount due to customers for contract work	(509,624)	(733,455)
	4,739,976	3,955,702
Contract costs incurred plus recognised profits less recognised losses to date	21,016,727	19,420,235
Less: Progress billings	(16,276,751)	(15,464,533)
	4,739,976	3,955,702

12. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES

Progress payment for telecommunications systems contracts is normally made in accordance with the agreed payment schedule. The Group's trading terms with its major customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 90 days and is extendable up to 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. In view of the aforementioned, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

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

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Within 6 months	5,313,680	3,968,731
7 to 12 months	770,026	701,656
1 to 2 years	418,661	313,288
2 to 3 years	37,211	10,551
Over 3 years	5,619	215
	6,545,197	4,994,441
Current portion of trade and bills receivables	(6,342,354)	(4,686,775)
Long-term portion	202,843	307,666

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

For the six months ended 30 June 2006

12. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES (continued)

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

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Ultimate holding company	342	177
A jointly-controlled entity	9	2,070
Associates	5,904	2,150
Related companies	92	13,314
	6,347	17,711

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

13. FACTORED TRADE RECEIVABLES/FACTORED LONG-TERM TRADE RECEIVABLES

As at 30 June 2006, the Company and a subsidiary of the Group factored trade receivables of RMB728,523,000 to banks on a without-recourse basis for cash. As the Company and the subsidiary of the Group still retained the risk and rewards associated with the delay in payment by the customers, the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled. Accordingly, bank advances from the factoring of the Group's trade receivables have been accounted for as liabilities in the condensed consolidated balance sheet.

14. LOAN RECEIVABLES

Loan receivable amounted to RMB25,262,000, representing the balance of a loan of EUR3,150,000 granted to a customer, bears an annual interest rate of 1% to 3% above the three-month Euro Inter-bank Offered Rate which will be fully repaid by February 2007, and is secured by shares of the customers' immediate holding company and the ultimate holding company. The borrower repaid the first installment payment and the executive directors of the Company are of the opinion that the value of the securities on hand approximates the loan receivable and that no provision is necessary for the loan receivable.

The balance is measured at amortised cost in accordance with the valuation technique using the effective interest method. The directors believe that the carrying amount resulting from the valuation technique approximates to its fair value, which is reasonable and is the most appropriate value at the balance sheet date.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

For the six months ended 30 June 2006

15. TRADE AND BILLS PAYABLES

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

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Within 6 months	5,882,849	6,049,126
7 to 12 months	107,895	142,100
1 to 2 years	23,621	45,968
2 to 3 years	12,867	5,506
Over 3 years	7,217	27,092
	6,034,449	6,269,792

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

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Ultimate holding company	54,160	104,563
Related companies	68,059	125,867
Associates	16,466	15,557
A jointly-controlled entity	301	182
	138,986	246,169

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

The trade payables are interest-free and are normally settled on 90-day terms.

16. CONTINGENT LIABILITIES

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

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Factored trade receivables	284,370	438,490
Guarantees given to banks in respect of performance bonds	2,123,865	2,823,760
	2,408,235	3,262,250

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

For the six months ended 30 June 2006

16. CONTINGENT LIABILITIES (continued)

- (b) On 26 April 2000, the Company approved and declared an one-off share bonus of approximately RMB64 million to its then employees who had elected to participate in the Deferred Share Bonus Scheme and 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. Subsequent to 20 June 2006, the date on which the lock-up period for the aforesaid deferred bonus shares expired and the day's closing price of A shares of the Company was above RMB18.5 per share, the Company no longer provided any guarantee or compensation for selling prices in respect of shares of the Company held by employees.
- (c) On 3 November 2005, a court action was commenced by a customer against a subsidiary of the Group and the Company in respect of a claim for return of advanced payment of RMB35 million and accrued interests and compensation losses of RMB36 million, amounting to approximately RMB71 million in aggregate. As at the date of the approval of these financial statements, no decision had been made in the court proceedings. As a measure to protect assets under the litigation, the court froze cash balance of RMB71 million of the Company, but the Group had not paid any compensation in respect of this litigation. In the opinion of the directors, based on legal advice from the Company's lawyer engaged for this action, the subsidiary of the Group and the Company have valid defences against such claims and any resulting liabilities would not have any material adverse impact on the Group's financial position. Therefore, no provision in respect of such claims was made in the financial statements.
- On 11 July 2006, upon approval by the court, RMB40 million out of frozen bank deposits of RMB71 million was released. Such release was secured by real estates in Nanjing owned by the Group valued at cost of RMB117.2 million. Based on legal advice from the Company's lawyer engaged for this action, the directors are of the opinion that the aforesaid litigation and securities would not have any material adverse impact on the Group's profit and assets for the current period.
- (d) In mid-2005, Zhongxing Telecom Pakistan (Pvt) Ltd, a subsidiary of the Company (the "Pakistan Subsidiary"), has commenced a defence action against the Collectorate of Customs, Sales Tax and Central Excise (Adjudication/Appeals), Rawalpindi in respect of a claim by the latter of additional custom duties of approximately PKR177 million (equivalent to approximately RMB23.9 million) and a penalty of approximately PKR2,400 million (equivalent to approximately RMB324 million) for an alleged misdeclaration of imported goods by the Pakistan Subsidiary. The Central Board of Revenue ("CBR") of Pakistan, the governing authority of the Collectorate of Customs, Sales Tax and Central Excise (Adjudication/Appeals), Rawalpindi, ordered payment claims to be suspended and the dispute to be settled by the Committee for Alternate Dispute Resolution Islamabad ("ADRC"). Following thorough investigation and analysis, ADRC submitted the final report to CBR on 5 September 2005, stating its view that the Pakistan Subsidiary had completed due customs procedures for its imports and that the aforesaid administrative penalty should be repealed by the Collectorate of Customs, Sales Tax and Central Excise (Adjudication/Appeals), Rawalpindi. To date, the case is pending CBR's final decision and the Group has not made any compensation in respect of the administrative penalty notice. Based on the legal advice from the lawyer engaged by the Company for this action, the directors estimated that the maximum financial impact to the Group would be in the order of approximately PKR36 million (equivalent to approximately RMB4.8 million). The Company has made a provision of RMB4 million in respect of this claim. The aforesaid claim would not have any material adverse impact on the Group's financial position and operating results.
- (e) On 16 December 2005, an arbitration was commenced by a foreign supplier against the Company in respect of claims for breach of contract and infringement of intellectual property rights in the amount of approximately USD36,450,000 (equivalent to approximately RMB294.2 million) in aggregate. As at the approval date of the financial statements, no decision by the tribunal has been made on the claims. In the opinion of the directors, based on legal advice from the Company's lawyer engaged for this action, the Company has valid defences against the claims and, the directors currently believe that the outcome of the arbitration would not have a material adverse impact on the Group's financial position. Therefore, no provision in respect of such claims has been made in the financial statements.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

For the six months ended 30 June 2006

16. CONTINGENT LIABILITIES (continued)

- (f) On 18 August 2005, the Company received a notice of arbitration from a foreign consultant in respect of a claim of consultancy fee of approximately USD90,000 (equivalent to approximately RMB726,000); a claim of agency fee of approximately USD1.19 million (equivalent to approximately RMB9,606,000); a compensation claim of approximately USD50,000 (equivalent to approximately RMB404,000) for harassment and undue delay in honoring of a consultancy agreement. As at the approval date of the financial statements, no decision had been made in the arbitration. In the opinion of the directors, based on legal advice from the Company's lawyer engaged for this action, the Company has valid defences, against such claims and any resulting liabilities would not have material adverse impact on the Group's financial position. Therefore, no provision in respect of such claims was made in the financial statements.

Save as disclosed above, as at 30 June 2006, the Company and the Group had no other material contingent liabilities.

17. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its offices under operating lease arrangements, with leases negotiated for terms ranging from 1 to 12 years.

At 30 June 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Within one year	131,260	97,047
In the second to fifth years, inclusive	85,953	79,109
After five years	2,713	7,269
	219,926	183,425

18. COMMITMENTS

In addition to the operating lease commitments detailed in note 17 above, the Group had the following commitments at the balance sheet date:

Capital commitments

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Land and buildings: Contracted, but not provided for	257,595	231,561
Investment in associates: Contracted, but not provided for	—	21,065

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(Prepared under Hong Kong accounting standards)

For the six months ended 30 June 2006

19. 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:

	Notes	For the six months ended	
		30 June 2006 (Unaudited) RMB'000	30 June 2005 (Unaudited) RMB'000
Net Profit			
Net profit from ordinary activities attributable to shareholders under PRC GAAP		373,468	687,663
Add back/(deduct):			
Accounting standards differences			
Recognition of government grants	(i)	(1,137)	(14,021)
Deferred development costs	(ii)	(28,490)	(13,689)
Deferred tax	(iii)	3,217	—
Amortisation of goodwill		—	406
Net profit attributable to shareholders from ordinary activities under Hong Kong accounting standards		347,058	660,359
	Notes	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Owners' equity			
Shareholders' equity under PRC GAAP		10,251,664	10,125,095
Add back/(deduct):			
Accounting standards differences			
Recognition of government grants	(i)	(6,063)	(4,926)
Provision for retirement benefits	(iv)	(30,459)	(30,459)
Deferred development costs	(ii)	153,618	182,108
Deferred tax	(iii)	(18,089)	(21,306)
Shareholders' equity under Hong Kong accounting standards		10,350,671	10,250,512

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

For the six months ended 30 June 2006

20. 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 2006 (Unaudited) RMB'000	30 June 2005 (Unaudited) RMB'000
Ultimate holding company				
Zhongxingxin and its subsidiaries, associates and jointly-controlled entities	Purchase of raw materials	(a)	229,824	233,120
	Sale of finished goods	(b)	75	—
Shareholders of ultimate holding company				
Shenzhen Zhongxing WXT Equipment Company, Ltd and its subsidiaries, associates and jointly-controlled entities	Purchase of raw materials	(a)	45,813	89,693
	Sale of finished goods	(b)	4,483	3,082
Xian Microelectronics Technology Research Institute and its subsidiaries, associates and jointly-controlled entities	Purchase of raw materials	(a)	5,361	4,474
	Sale of finished goods	(b)	746	10,551
Jointly controlled entities				
Beijing Zhongxing Telecom Ltd. and its subsidiaries, associates and jointly controlled entities	Purchase of raw materials	(a)	208	89
	Sale of finished goods	(b)	37	9,780
Associates				
Beijing Yuanjing Technology Co., Ltd.	Sale of finished goods	(b)	759	2,822
ZTE IC Design Co., Ltd.	Purchase of raw materials	(a)	13,122	11,386
	Sale of finished goods	(b)	10,049	4,258

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

For the six months ended 30 June 2006

20. RELATED PARTY TRANSACTIONS (continued)

(I) Transactions with related parties (continued)

Name of company	Nature of transaction	Notes	For the six months ended	
			30 June 2006 (Unaudited) RMB'000	30 June 2005 (Unaudited) RMB'000
Associates (continued)				
Shenzhen Decang Technology Company Limited	Purchase of raw materials	(a)	6,684	—
深圳思碼特電子有限公司	Purchase of raw materials	(a)	520	—
Shenzhen Weigao Semi-conductor Technology Co., Ltd.	Sale of finished goods	(b)	—	3,267
China Topssion Communication Co. Ltd. (中移鼎訊通信股份有限公司)	Sale of finished goods	(b)	359	9,337
Entity controlled by key management personnel of the Group				
Chung Hing (Hong Kong) Development Company Limited	Purchase of raw materials	(a)	294	6,276
Shareholder of a subsidiary				
The Government of the Democratic Republic of Congo	Guarantee	(c)	80,000	80,000

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.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

For the six months ended 30 June 2006

20. RELATED PARTY TRANSACTIONS (continued)

(II) Compensation of key management personnel of the Group

	For the six months ended	
	30 June 2006 (Unaudited) RMB'000	30 June 2005 (Unaudited) RMB'000
Short term employee benefits	1,234	1,279

21. POST BALANCE SHEET EVENT

There were no significant events after 30 June 2006.

22. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 24 August 2006.