

# ZTE中兴 中兴通讯股份有限公司

ZTE CORPORATION



# Important

The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of the Company confirm that this report does not contain any false information, misleading statements or material omissions, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of its contents.

There are no Directors, Supervisors or senior management who do not warrant or who dispute the truthfulness, accuracy and completeness of the contents of this report.

This report has been considered and approved at the Thirty-second meeting of the Fifth Session of the Board of Directors of the Company. Mr. Zhang Junchao, Director, was unable to attend the meeting due to prior work commitment, and has authorised Mr. Wang Zhanchen, Director, to vote on his behalf.

The interim financial statements of the Group for the six months ended 30 June 2012 were unaudited.

Mr. Hou Weigui, Chairman of the Company, Mr. Wei Zaisheng, Chief Financial Officer of the Company and Mr. Shi Chunmao, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness and completeness of the financial statements contained in this report.

This report has been prepared in Chinese and English respectively. In case of discrepancy in the interpretation of this report, the Chinese version shall prevail, except for the financial statements prepared in accordance with HKFRSs, of which the English version shall prevail.

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# Definitions

In this report, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in the section headed “Glossary”.

“Company” or “ZTE”	ZTE Corporation, a joint stock limited company incorporated in China on 11 November 1997 under the Company Law of the People’s Republic of China, the A shares and H shares of which are listed on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange respectively.
“Articles of Association”	The Articles of Association of ZTE Corporation
“Group”	ZTE and one or more of its subsidiaries
“Board of Directors”	The board of directors of the Company
“Directors”	Members of the board of directors of the Company
“Supervisory Committee”	The supervisory committee of the Company
“Supervisors”	Members of the supervisory committee of the Company
“China” or “PRC”	People’s Republic of China
“ITU”	International Telecommunications Union, a specialised agency for telecommunications within the United Nations, the primary aim of which is to coordinate the operation of telecommunications network and services and advance the development of communications technology.
“CSRC”	China Securities Regulatory Commission
“Shenzhen CSRC”	The China Securities Regulatory Commission Shenzhen Bureau
“Shenzhen Stock Exchange”	The Shenzhen Stock Exchange of China
“Shenzhen Stock Exchange Listing Rules”	Rules Governing the Listing of Stocks on The Shenzhen Stock Exchange (revised 2012)
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“SFO”	Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong)
“HKFRSs”	Hong Kong Financial Reporting Standards (including Hong Kong Accounting Standards (“HKASs”) and Interpretations)
“PRC ASBEs”	Generally accepted accounting principles in China
“CASC”	China Aerospace Science and Technology Corporation and its subsidiaries
“CASIC”	China Aerospace Science and Industry Corporation and its subsidiaries
“Xi’an Microelectronics”	Xi’an Microelectronics Technology Research Institute
“Aerospace Guangyu”	Shenzhen Aerospace Guangyu Industrial Company Limited
“Zhongxing WXT”	Shenzhen Zhongxing WXT Equipment Company Limited
“Zhongxingxin”	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited
“Zhongxing Xindi”	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited
“Zhongxing Xinyu”	Shenzhen Zhongxing Xinyu FPC Company Limited

“Zhongxing Xinzhou”	Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited
“ZTE Kangxun”	Shenzhen ZTE Kangxun Telecom Company Limited
“Zhongxing Software”	Shenzhen Zhongxing Software Company Limited
“ZTE HK”	ZTE (H.K.) Limited
“Nationz Technologies”	Nationz Technologies, Inc.
“Jufei”	Shenzhen Jufei Optoelectronics Co., Ltd.
“Changfei”	Shenzhen Changfei Investment Company Limited
“Speed”	Huizhou Speed Wireless Technology Co., Ltd.
“ZTE Capital”	Shenzhen ZTE Capital Management Company Limited
“Zhonghe Chunsheng Fund”	Shenzhen Zhonghe Chunsheng Partnership Private Equity Fund I
“Zhongxing Development”	Zhongxing Development Company Limited (formerly “Shenzhen Zhongxing Development Company Limited” and renamed “Zhongxing Development Company Limited”.)
“Zhongxing Hetai”	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited (深圳市中興和泰酒店投資管理有限公司)
“BOCHK”	Bank of China (Hong Kong) Limited
“ZTE France”	ZTE France SASU

# Glossary

This glossary contains certain definitions of technical terms used in this report as they relate to the Group. Some of these definitions may not correspond to standard industry definitions or usage.

2G	Second-generation mobile networks utilizing digital wireless technology to provide larger network capacity, improved voice quality and encryption and seamless international roaming for users. Existing mobile communications networks are mainly 2G GSM and CDMA utilizing GSM, GPRS and IS-95B for CDMA technology with a data supply capacity of up to 115.2 Kbps, or 384 Kbps in case of GSM featuring EDGE technology.
3G	Third-generation mobile networks supporting peak data rates of 144 Kbps at mobile user speeds, 384 Kbps at pedestrian user speeds and 2 Mbps in fixed locations, although some initial deployments were configured to support just 64 Kbps. ITU coordinates 3G standards through its IMT-2000 project and key standards bodies such as 3GPP and 3GPP2.
4G	IMT-Advanced standards as defined by ITU, including LTE-Advanced and Wireless MAN-Advanced (802.16m) standards, supporting theoretical download rates of 1Gbit/s in fixed locations and 100Mbit/s in motion.
GSM	A global system for cellular mobile communications originated in Europe, which has been deployed in more than 170 countries using TDMA radio propagation technology.
CDMA	Code division multiple access, one of the standards for 2G mobile communications. It is a spread spectrum technology standard that assigns a pseudo-noise (PN) code to all voice and data bits, sends a scrambled transmission of the encoded voice over the air and reassembles the voice in its original format. By assigning a unique correlating code to each transmitter, several simultaneous conversations can share the same frequency allocations.
TD-SCDMA	Time division synchronous code division multiple access, a 3G technology developed in China to support voice and data transmission.
CDMA2000	The CDMA2000 standards are set by 3GPP2, featuring various versions such as Release 0, Release A and EV-DO. Currently, data services supported by single carrier EV-DO are capable of simultaneously providing voice and high-speed packet data services utilizing 1.25MHz standard carrier, with a peak rate of 3.1Mbit/s.
UMTS	A reference to WCDMA standards generally used in Europe. 3G technologies have been collectively referred to as UMTS (Universal Mobile Telecommunications System) by European Telecommunications Standards Institute (ETSI) since the early 1990s.
LTE	LTE (Long Term Evolution) refers to the long-term evolution of 3G technology with OFDM as the core technology, and is regarded as 4G in the making. LTE is being promoted by 3GPP and its major performance targets include maximum speeds of 100Mbps (download) and 50Mbps (upload) using 20MHz bandwidth. There are two types of LTE, distinguished by the mode of division duplex, namely FDD-LTE and TDD-LTE.
SDR	Software Defined Radio, a radio communication system where different protocol technologies are implemented by modifications in software and configuration without hardware replacement. The SDR technology provides solutions to a multi-mode, multi-frequency and scalable wireless system. The SDR platform is a new-generation multi-mode, multi-frequency and scalable wireless technology platform developed by ZTE.
Uni-RAN	Unified Radio Access Network solution, a radio base station system based on the SDR technology. The solution provides for unified base station groups, base station controllers, unified core networks, centralized network management and unified network regulation and optimisation instruments. The product supports 2G/3G/4G on a simultaneous basis, as well as gradual scaling among different modes.

C-RAN	A low-cost and high-performance green radio access network architecture, which is a cooperative wireless network comprising a centralized baseband pool, a remote radio frequency unit and an antenna group. C-RAN is conducive to lower construction and operating costs for mobile networks, energy conservation and higher utilisation of infrastructure, while enabling better frequency spectrum efficiency and broader bandwidth for users.
Internet of Things	A network interconnecting all things in the physical world, characterised by comprehensive sensors, reliable transmission and smart processing and aiming at connection among any objects at any time, any location. It can help to realize the organic integration of the human society with the physical world, so that humankind can manage production and life in a more detailed and dynamic way to generally enhance the level of informatisation of the society.
Cloud Computing	A concept underlining the fusion of traditional computing technologies with network technologies. The core idea is to centralise the management and modulation of massive computing resources connected through the network, forming a pool of computing resources that serve users on an as-needed basis. Cloud Computing is applied in commercial offerings such as SaaS, PaaS and IaaS.
Mobile Internet	Internet access service facilitated through mobile terminals such as smart phones/handheld digital assistants, notebooks and Pad. Enriched by the popularisation of smart terminals, Mobile Internet services now include mobile computing, mobile music, smart phone games, positioning technology, wireless communities and wireless payments, etc.
PCT International Patent	PCT is the short form of Patent Cooperation Treaty. Patent applications filed pursuant to PCT are referred to as PCT international patent applications. A single filing of an international patent application under PCT will enable the applicant to demand patent protection for its inventions in numerous countries at the same time.

# Corporate Information

## (I) BASIC INFORMATION

1	Legal name (in Chinese) Chinese abbreviation Legal name (in English) English abbreviation	中興通訊股份有限公司 中興通訊 ZTE Corporation ZTE
2	Legal representative	Hou Weigui
3	Secretary to the Board of Directors/Company Secretary Securities affairs representatives Correspondence address  Telephone Facsimile E-mail	Feng Jianxiong  Xu Yulong, Cao Wei 55 Keji Road South, Shenzhen, Guangdong Province, People's Republic of China +86 755 26770282 +86 755 26770286 fengjianxiong@zte.com.cn
4	Registered and office address  Postal code Website E-mail Principal place of business in Hong Kong	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China 518057 <a href="http://www.zte.com.cn">http://www.zte.com.cn</a> fengjianxiong@zte.com.cn 8/F Gloucester Tower, The Landmark, 15 Queen's Road Central, Central, Hong Kong
5	Domestic newspapers designated for information disclosure by the Company Authorised websites on which this report is made available Place where this report is available for inspection	China Securities Journal, Securities Times, Shanghai Securities News <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkexnews.hk">http://www.hkexnews.hk</a> 55 Keji Road South, Shenzhen, Guangdong Province, People's Republic of China
6	Listing information	<p><b>A shares</b> Shenzhen Stock Exchange Abbreviated name of stock: 中興通訊 Stock code: 000063</p> <p><b>Bonds cum Warrants      Corporate Bonds</b> Shenzhen Stock Exchange      Shenzhen Stock Exchange Abbreviated name of bond: 中興債1      Abbreviated name of bond: 12中興01 Bond code: 115003      Bond code: 112090</p> <p><b>H shares</b> Hong Kong Stock Exchange Abbreviated name of stock: ZTE Stock code: 763</p>



**(II) MAJOR FINANCIAL DATA AND INDICATORS****1. Major Financial Data and Indicators prepared in accordance with PRC ASBES**

Unit: RMB in thousands

Item	End of the reporting period (30 June 2012)	End of last year (31 December 2011)	Change as at the end of the reporting period compared with the end of last year
Total assets	107,045,025	105,368,114	1.59%
Owner's equity attributable to shareholders of the listed company	24,503,585	24,231,717	1.12%
Share capital (thousand shares)	3,440,078	3,440,078	0.00%
Net asset per share attributable to shareholders of the listed company (RMB/share) <sup>Note 1</sup>	7.14	7.06	1.13%
Gearing ratio (%)	75.07%	75.05%	Increased by 0.02 percentage points
Item	Reporting Period (Six months ended 30 June 2012)	Same period of last year (Six months ended 30 June 2011) (Restated)	Change compared with the same period of last year
Operating revenue	42,641,898	37,013,111	15.21%
Operating profit	(863,347)	683,744	-226.27%
Total profit	655,632	1,272,749	-48.49%
Net profit attributable to shareholders of the listed company	244,875	769,271	-68.17%
Net profit after extraordinary items attributable to shareholders of the listed company	(59,383)	(76,936)	22.82%
Basic earnings per share (RMB/share) <sup>Note 2</sup>	0.07	0.23	-69.57%
Diluted earnings per share (RMB/share) <sup>Note 3</sup>	0.07	0.22	-68.18%
Basic earnings per share after extraordinary items (RMB/share) <sup>Note 2</sup>	(0.02)	(0.02)	0.00%
Fully diluted return on net assets (%)	1.00%	3.34%	Decreased by 2.34 percentage points
Weighted average return on net assets (%)	1.00%	3.29%	Decreased by 2.29 percentage points
Fully diluted return on net assets after extraordinary items (%)	-0.24%	-0.33%	Increased by 0.09 percentage points
Weighted average return on net assets after extraordinary items (%)	-0.24%	-0.33%	Increased by 0.09 percentage points
Net cashflow from operating activities	(3,639,672)	(6,171,353)	41.02%
Net cashflow from operating activities per share (RMB/share) <sup>Note 4</sup>	(1.06)	(1.83)	42.08%

## Corporate Information

- Note 1: Net asset per share attributable to shareholders of the listed company as at the end of the first half of 2012 and the end of 2011 were calculated on the basis of the number of shares representing the total share capital as at the end of the respective periods less 9,125,893 restricted shares remaining in lock-up under the share incentive scheme.
- Note 2: Basic earnings per share for the first half of 2012 was calculated on the basis of the weighted average number of shares less 9,125,893 restricted shares remaining in lock-up under the share incentive scheme. Basic earnings per share for the same period of the previous year was calculated on the basis of the weighted average number of shares less 62,407,186 restricted shares then remaining in lock-up under the share incentive scheme, and have been restated to reflect the implementation of the 2010 profit distribution and capitalization of capital reserve plans of the Company;
- Note 3: As certain Subject Share quotas under the Share Incentive Scheme of the Company have given rise to 6,874,194 and 61,864,408 potentially dilutive ordinary shares for the reporting period and the same period of 2011, respectively, therefore diluted earnings per share have been calculated on the basis of basic earnings per share taking into account the said factors and the diluted earnings per share for the same period of 2011 have been restated to reflect the implementation of the 2010 profit distribution and capitalization of capital reserve plans of the Company;
- Note 4: Net cash flow from operating activities per share as at the end of the first half of 2012 were calculated on the basis of the number of shares representing the total share capital at the end of the period less 9,125,893 restricted shares remaining in lock-up under the share incentive scheme; net cash flow from operating activities per share for the same period of 2011 was calculated on the basis of the number of shares representing the total share capital as at 30 June 2011 less 62,407,186 restricted shares remaining in lock-up under the share incentive scheme, and have been restated to reflect the implementation of the 2010 profit distribution and capitalization of capital reserve plans of the Company.

Extraordinary gains or losses items and amounts deducted are set out as follows:

Unit: RMB in thousands

Extraordinary item	Amount
Non-operating income	320,436
Gains/(Losses) from fair value change	(31,439)
Investment gains	96,693
Less: Gains/(Losses) arising from the disposal of non-current assets	12,068
Less: Other non-operating expenses	15,671
Less: Effect of income tax	53,693
<b>Total</b>	<b>304,258</b>

### 2. Major financial indicators prepared in accordance with HKFRSs

Item	Six months ended 30 June 2012	Six months ended 30 June 2011
Basic earnings per share (RMB/share) <sup>Note 1</sup>	0.07	0.23
Weighted average return on net assets (%)	1.00%	3.29%
Weighted average return on net assets after extraordinary items (%)	-0.24%	-0.33%

Item	As at 30 June 2012	As at 31 December 2011
Net asset per share attributable to shareholders of the listed company (RMB/share) <sup>Note 2</sup>	7.14	7.06

Note 1: Basic earnings per share for the first half of 2012 was calculated on the basis of the weighted average number of shares less 9,125,893 restricted shares remaining in lock-up under the share incentive scheme. Basic earnings per share for the same period of the previous year was calculated on the basis of the weighted average number of shares less 62,407,186 restricted shares then remaining in lock-up under the share incentive scheme, and have been restated to reflect the implementation of the 2010 profit distribution and capitalization of capital reserve plans of the Company.

Note 2: Net asset per share attributable to shareholders of the listed company as at the end of the first half of 2012 and the end of 2011 were calculated on the basis of the number of shares representing the total share capital as at the end of the respective periods less 9,125,893 restricted shares remaining in lock-up under the share incentive scheme.

### 3. The amount of net profit and shareholders' equity of the Group for the six months ended and as at 30 June 2012 calculated in accordance with PRC ASBEs are fully consistent with those calculated under HKFRSs.

# Changes in Share Capital and Shareholdings of Substantial Shareholders

## (1) CHANGES IN SHARE CAPITAL OF THE COMPANY DURING THE REPORTING PERIOD

Unit: Shares

	Opening Balance (31 December 2011)		Increase/decrease (+/-) resulting from changes in the reporting period					Closing Balance (30 June 2012)	
	Number	Percentage	New issue	Bonus issue	Transfer from capital reserve	Others <sup>Note</sup>	Sub-total	Number	Percentage
<b>I. Shares subject to lock-up</b>	<b>17,455,975</b>	<b>0.51%</b>	—	—	—	-129,767	-129,767	<b>17,326,208</b>	<b>0.51%</b>
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned corporate shares	—	—	—	—	—	—	—	—	—
3. Other domestic shares	9,125,893	0.27%	—	—	—	—	—	9,125,893	0.27%
Comprising: Domestic non-state-owned corporate shares	—	—	—	—	—	—	—	—	—
Domestic natural person shares	9,125,893	0.27%	—	—	—	—	—	9,125,893	0.27%
4. Foreign shares	—	—	—	—	—	—	—	—	—
Comprising: Foreign corporate shares	—	—	—	—	—	—	—	—	—
Foreign natural person shares	—	—	—	—	—	—	—	—	—
5. Senior management shares	8,330,082	0.24%	—	—	—	-129,767	-129,767	8,200,315	0.24%
<b>II. Shares not subject to lock-up</b>	<b>3,422,622,045</b>	<b>99.49%</b>	—	—	—	<b>129,767</b>	<b>129,767</b>	<b>3,422,751,812</b>	<b>99.49%</b>
1. RMB ordinary shares	2,793,036,600	81.19%	—	—	—	129,767	129,767	2,793,166,367	81.19%
2. Domestic-listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares (H Shares)	629,585,445	18.30%	—	—	—	—	—	629,585,445	18.30%
4. Others	—	—	—	—	—	—	—	—	—
<b>III. Total number of shares</b>	<b>3,440,078,020</b>	<b>100.00%</b>	—	—	—	—	—	<b>3,440,078,020</b>	<b>100.00%</b>

Note: According to relevant domestic regulations, shares held by Directors, Supervisors or senior management of the Company shall be subject to unlock on a pro-rata basis.

## Changes in Share Capital and Shareholdings of Substantial Shareholders

### (2) CHANGES IN SHARES SUBJECT TO LOCK-UP DURING THE REPORTING PERIOD

Unit: Shares

No.	Name of shareholders subject to lock-up	Number of shares subject to lock-up as at 31 Dec 2011	Number of shares released from lock-up during the reporting period	Increase in the number of shares subject to lock-up during the reporting period	Number of shares subject to lock-up at the end of the reporting period	Lock-up conditions	Date of unlocking
1	Hou Weigui	890,603	—	—	890,603	Restricted senior management shares	Note 1
2	Chen Jie	558,436	—	—	558,436	Restricted senior management shares	Note 1
3	Ni Qin	532,920	—	—	532,920	Restricted senior management shares	Note 1
4	Yin Yimin	474,624	—	—	474,624	Restricted senior management shares	Note 1
5	Zeng Xuezhong	425,700	—	—	425,700	Restricted senior management shares	Note 1
6	Fan Qingfeng	421,874	—	—	421,874	Restricted senior management shares	Note 1
7	Pang Shengqing	391,051	—	—	391,051	Restricted senior management shares	Note 1
8	Ye Weimin	387,248	—	—	387,248	Restricted senior management shares	Note 1
9	Xu Huijun	480,709	97,500	—	383,209	Restricted senior management shares	Note 1
10	Xie Daxiong	373,868	—	—	373,868	Restricted senior management shares	Note 1
11	Others	12,518,942	32,267	—	12,486,675	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
	Total	17,455,975	129,767	—	17,326,208	—	—

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

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

### (3) ISSUE AND LISTING OF SECURITIES

- On 5 June 2009, the Company implemented the 2008 profit distribution and capitalisation of capital reserve plans, whereby 3 shares were issued for every 10 shares held on the basis of a total share capital of 1,343,330,310 shares. Following the implementation, the total capital of the Company was increased by 402,999,092 shares.
- Registration of a total of 85,050,238 A shares granted to 4,022 Scheme Participants under the Phase I Share Incentive Scheme of the Company with China Securities Depository and Clearing Company Limited, Shenzhen Branch had been completed. The unlocking of Subjects Shares under the First Unlocking of the Phase I Share Incentive Scheme of the Company was completed on 22 July 2009. The total share capital of the Company has increased by 85,006,813 shares, after deducting 43,425 Subject Shares which have not been unlocked and have lapsed.
- On 21 January 2010, the Company completed the placing of 58,294,800 H shares for listing pursuant to the general mandate at a placing price of HK\$45.0 per share, raising net proceeds of approximately HK\$2,596 million.
- As at the close of trading on 12 February 2010, a total of 23,348,590 “中興 ZXC1” Warrants had been exercised at an exercise ratio of 1:0.922 and an adjusted exercise price of RMB42.394 per share on an ex-rights and ex-dividend basis to subscribe for 21,523,441 A shares, raising proceeds of approximately RMB912 million.
- On 24 June 2010, the Company implemented the 2009 profit distribution and capitalisation of capital reserve plans, whereby 5 shares were issued for every 10 shares held on the basis of a total share capital of 1,911,154,456 shares. Following the implementation, the total capital of the Company was increased by 955,577,228 shares.

6. On 7 July 2011, the Company implemented the 2010 profit distribution and capitalisation of capital reserve plans, whereby 2 shares were issued for every 10 shares held on the basis of a total share capital of 2,866,731,684 shares. Following the implementation, the total capital of the Company was increased by 573,346,336 shares.
7. The Company completed the issue of the 2012 corporate bonds (tranche 1) on 15 June 2012. The finalized online and offline issue volumes amounted to RMB200 million and RMB5,800 million, respectively. The corporate bonds under the said issue were listed on Shenzhen Stock Exchange on 16 July 2012 under the bond code “112090” and the abbreviated bond name “12中興01”.
8. Changes in the total number and structure of the share capital and resulting changes in the balance sheet structure of the Company.
- Applicable  N/A
9. The Company had no employees' shares.

#### (4) SHAREHOLDERS AND DE FACTO CONTROLLERS OF THE COMPANY AS AT THE END OF THE PERIOD

1. Total number of shareholders, shareholdings of top ten shareholders and top ten holders that were not subject to lock-up

Total numbers of shareholders 142,828 shareholders (of which 142,472 were holders of A shares and 356 were holders of H shares)

##### Shareholdings of top ten shareholders

Name of shareholders	Nature of Shareholders	Total number of shares held (shares)	Percentage of Shareholdings	Number of shares held subject to lock-up (shares)	Number of shares pledged or frozen
1. Zhongxingxin	State-owned shareholders	1,058,191,944	30.76%	0	None
2. HKSCC Nominees Limited	Foreign shareholders	628,372,860	18.27%	0	Unknown
3. China Life Insurance Company Limited – Dividend – Individual Dividend – 005L-FH002 Shen	Others	95,089,219	2.76%	0	Unknown
4. CITIC Trust Co., Ltd. – Wealth Management 06	Others	58,194,000	1.69%	0	Unknown
5. Hunan Nantian (Group) Co., Ltd	State-owned shareholders	37,450,609	1.09%	0	Unknown
6. China Life Insurance Company Limited – Traditional – General Insurance Products – 005L-CT001 Shen	Others	36,021,482	1.05%	0	Unknown
7. Bank of China – E Fund Shenzhen Stock Exchange 100 Exchange-Traded Fund	Others	32,104,710	0.93%	0	Unknown
8. China Life Insurance (Group) Company – Traditional – General Insurance Products	Others	25,569,044	0.74%	0	Unknown
9. Industrial and Commercial Bank of China – Rongtong Shenzhen Stock Exchange 100 Index Fund	Others	21,427,116	0.62%	0	Unknown
10. China Merchants Bank Co., Ltd. – Everbright Pramerica Fund Advantage Allocation Stock Fund	Others	18,299,940	0.53%	0	Unknown

## Changes in Share Capital and Shareholdings of Substantial Shareholders

### Shareholdings of top ten holders that were not subject to lock-up

Name of shareholders	Number of shares not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	1,058,191,944	A shares
2. HKSCC Nominees Limited	628,372,860	H shares
3. China Life Insurance Company Limited – Dividend – Individual Dividend – 005L-FH002 Shen	95,089,219	A shares
4. CITIC Trust Co.,Ltd. – Wealth Management 06	58,194,000	A shares
5. Hunan Nantian (Group) Co., Ltd	37,450,609	A shares
6. China Life Insurance Company Limited – Traditional – General Insurance Products – 005L-CT001 Shen	36,021,482	A shares
7. Bank of China – E Fund Shenzhen Stock Exchange 100 Exchange-Traded Fund	32,104,710	A shares
8. China Life Insurance (Group) Company – Traditional – General Insurance Products	25,569,044	A shares
9. Industrial and Commercial Bank of China – Rongtong Shenzhen Stock Exchange 100 IndexFund	21,427,116	A shares
10. China Merchants Bank Co., Ltd. – Everbright Pramerica Fund Advantage Allocation Stock Fund	18,299,940	A shares

Descriptions of any connected party relationships or concerted party relationships among the above shareholders

1. There were no connected party relationships or concerted party relationships between Zhongxingxin and other top ten shareholders and other top ten holders of shares not subject to lock-up.

2. The 3rd and 6th ranking shareholders among the top 10 shareholders were managed by the same fund manager – China Life Insurance Company Limited. The 8th ranking shareholder was managed by China Life Insurance Company (Group) Limited, the controlling shareholder of China Life Insurance Company Limited.

3. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and the top ten holders of shares that are not subject to lock-up.

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

Note 2: Changes in the shareholding of Zhongxingxin, shareholder interested in more than 5% of the Company's shares, during the reporting period are as follows:

Name of shareholder	Increase/decrease (+/-) of number of shares held during the reporting period (shares)	Number of shares held at the end of the reporting period (shares)	Class of shares held	Number of shares subject to lock-up held at the end of the reporting period (shares)	Number of shares not subject to lock-up held at the end of the reporting period (shares)	Number of shares pledged or frozen (shares)
Zhongxingxin	0	1,058,191,944	A shares	0	1,058,191,944	Nil

## 2. Controlling shareholders of the Company

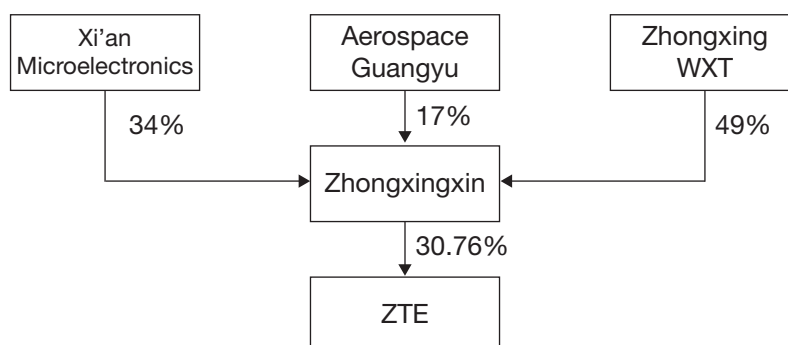
During the reporting period, there was no change in the Company's controlling shareholder, details of which are as follows:

Name of controlling shareholder:	Zhongxingxin
Legal representative:	Xie Weiliang
Date of incorporation:	29 April 1993
Organisation number:	19222451-8
Registered capital:	RMB100 million
Scope of business:	Production of programmed switchboard cabinets, telephones and related components, electronic products; import and export operations (in accordance with the requirements under document Shen Mao Guan Shen Zheng Zi No. 727); treatment of waste water, toxic fumes and noise and related technical services, research and technical development of environmental protection equipment; production of continuous monitoring smoke systems; manufacturing of mining equipment; manufacturing of power transmission and distribution and control equipment; computer systems integration; development of digital processing system technologies and technological research and development for related technical services.

## 3. Controlling shareholders and de facto controllers of the Company

The controlling shareholder of the Company, Zhongxingxin, was jointly formed by Xi'an Microelectronics, Aerospace Guangyu and Zhongxing WXT, each holding a 34%, 17% and 49% stake in Zhongxingxin respectively. Zhongxingxin currently has 9 directors, of which 3 have been nominated by Xi'an Microelectronics, 2 by Aerospace Guangyu and 4 by Zhongxing WXT, representing 33.33%, 22.22% and 44.45% of the composition of the board of directors of Zhongxingxin respectively. Therefore, no shareholder of Zhongxingxin has the right to control the financial and operating decisions of the Company whether in terms of shareholding or corporate governance structure. Therefore, the Company does not have any de facto controller and no party has effective control over the Company, whether by way of trust or other asset management. For details of these three shareholders, please refer to the section headed "Changes in Share Capital and Information of Shareholders – (IV) SHAREHOLDERS AND DE FACTO CONTROLLERS OF THE COMPANY" in the 2011 Annual Report of the Company.

The following diagram shows the shareholding relationships between the said corporate shareholders and the Company as at 30 June 2012:



## Changes in Share Capital and Shareholdings of Substantial Shareholders

4. The Company had no other corporate shareholder who was interested in more than 10% of its shares.
5. Interests of substantial shareholders of the Company in shares and underlying shares

As at 30 June 2012, the following shareholders held interests or short positions in 5% or more in any class of the issued share capital of the Company, as shown in the share register maintained by the Company in accordance with Section 336 of the SFO:

Name	Capacity	Number of shareholding	Approximate shareholding as a percentage (%) of:	
			Total share capital	Relevant class of shares
Zhongxingxin	Beneficial owner	1,058,191,944 A shares (L)	30.76(L)	37.65(L)
Zhongxing WXT	Interest of controlled corporation	1,058,191,944 A shares (L)	30.76(L)	37.65(L)
Xi'an Microelectronics	Interest of controlled corporation	1,058,191,944 A shares (L)	30.76(L)	37.65(L)
China Aerospace Electronics Technology Research Institute	Interest of controlled corporation	1,058,191,944 A shares (L)	30.76(L)	37.65(L)
CASC	Interest of controlled corporation	1,058,191,944 A shares (L)	30.76(L)	37.65(L)
JPMorgan Chase & Co.	Beneficial owner, investment manager and approved lending agent	56,798,084 H shares (L)	1.65(L)	9.02(L)
	Beneficial owner	11,752,021 H shares (S)	0.34(S)	1.87(S)
	Approved lending agent	39,027,957 H shares (P)	1.13(P)	6.20(P)
Deutsche Bank Aktiengesellschaft	Beneficial owner, investment manager, person holding interest of guarantee on shares and approved lending agent	56,712,655 H shares (L)	1.65(L)	9.00(L)
	Beneficial owner and person holding interest of guarantee on shares	44,635,271 H shares (S)	1.30(S)	7.08(S)
	Approved lending agent	723,000 H shares (P)	0.02(P)	0.11(P)
Aranda Investments (Mauritius) Pte Ltd	Interest of controlled corporation	11,141,800 H shares (L)	1.16(L) <sup>Note</sup>	6.96(L) <sup>Note</sup>
Capital Research and Management Company	Investment manager	38,410,000 H shares (L)	1.12(L)	6.10(L)
Massachusetts Financial Services Company ("MFS")	Investment manager	8,428,100 H shares (L)	0.88(L) <sup>Note</sup>	5.26(L) <sup>Note</sup>
Sun Life Financial, Inc.	Interest of controlled corporation	8,428,100 H shares (L)	0.88(L) <sup>Note</sup>	5.26(L) <sup>Note</sup>

(L) — long position, (S) — short position, (P) — lending pool

Note: Shareholdings as percentage of total share capital and relevant class of shares was calculated on the basis of the Company's total share capital (959,521,650 shares) and total number of H shares (160,151,040 shares) before the capitalisation of capital reserves on 10 July 2008.



Save as disclosed above, as at 30 June 2012, so far as the Directors, Supervisors and senior management of the Company are aware, no person had an interest or short position in the shares and underlying shares of the Company that was required to be recorded in the register maintained pursuant to Section 336 of the SFO.

**6. Purchase, sale and redemption of securities**

During the reporting period, the Group did not purchase, sell or redeem any listed securities of the Company.

# Directors, Supervisors, Senior Management and Employees

## (I) CHANGES IN THE SHAREHOLDINGS OF THE COMPANY'S DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The effective shareholdings in the issued share capital of the Company held by and Subject Shares under the Share Incentive Scheme granted to the Directors, Supervisors and senior management of the Company at the end of the reporting period are as follows:

No.	Name	Title	Gender	Age	Term of office Commencing on	Term of office ending on	Number of A shares held at the beginning of the reporting period (shares)	Increase in the number of shares held during the period (shares)	Decrease in the number of shares held during the period (shares)	Number of A shares held at the end of the reporting period (shares)	Including: number of restricted shares held (shares)	Number of restricted shares under share incentive scheme at the end of the period (shares)	Whether remuneration is received from shareholder entities or other connected entities
<b>Directors of the Company</b>													
1	Hou Weigui	Chairman	Male	71	3/2010	3/2013	1,187,472	—	—	1,187,472	890,603	—	— No
2	Lei Fanpei <sup>Note 1</sup>	Vice Chairman	Male	49	3/2010	2/2012	—	—	—	—	—	—	— Yes
3	Zhang Jianheng	Vice Chairman	Male	51	4/2012	3/2013	—	—	—	—	—	—	— Yes
4	Xie Weiliang	Vice Chairman	Male	56	3/2010	3/2013	32,760	—	—	32,760	24,570	—	— Yes
5	Wang Zhanchen	Director	Male	60	3/2010	3/2013	—	—	—	—	—	—	— Yes
6	Zhang Junchao	Director	Male	59	3/2010	3/2013	32,760	—	—	32,760	24,570	—	— Yes
7	Dong Lianbo	Director	Male	55	3/2010	3/2013	32,760	—	—	32,760	24,570	—	— Yes
8	Shi Lirong	Director and Chief Executive Officer	Male	48	3/2010	3/2013	360,511	—	—	360,511	270,382	—	— No
9	Yin Yimin	Director	Male	49	3/2010	3/2013	632,833	—	—	632,833	474,624	—	— No
10	He Shiyou	Director and Executive Vice President	Male	46	3/2010	3/2013	344,940	—	—	344,940	258,703	—	— No
11	Qu Xiaohui	Independent Non-executive Director	Female	58	3/2010	3/2013	—	—	—	—	—	—	— No
12	Wei Wei	Independent Non-executive Director	Male	47	3/2010	3/2013	—	—	—	—	—	—	— No
13	Chen Naiwei	Independent Non-executive Director	Male	55	3/2010	3/2013	—	—	—	—	—	—	— No
14	Tan Zhenhui	Independent Non-executive Director	Male	68	3/2010	3/2013	—	—	—	—	—	—	— No
15	Timothy Alexander Steinert	Independent Non-executive Director	Male	52	6/2010	3/2013	—	—	—	—	—	—	— No
<b>Supervisors of the Company</b>													
16	Zhang Taifeng	Chairman of Supervisory Committee	Male	71	3/2010	3/2013	398,625	—	—	398,625	298,967	—	— No
17	He Xuemei	Supervisor	Female	42	3/2010	3/2013	30,347	—	—	30,347	22,760	—	— No
18	Zhou Huidong	Supervisor	Male	36	6/2010	3/2013	78,158	—	—	78,158	58,618	—	— No
19	Wang Yan	Supervisor	Female	47	3/2010	3/2013	—	—	—	—	—	—	— Yes
20	Xu Weiyan	Supervisor	Female	50	3/2010	3/2013	9,199	—	—	9,199	6,899	—	— No
<b>Senior management of the Company</b>													
21	Wei Zaisheng	Executive Vice President and Chief Financial Officer	Male	50	3/2010	3/2013	387,421	—	—	387,421	290,565	—	— No
22	Xie Daxiong	Executive Vice President	Male	49	3/2010	3/2013	498,492	—	—	498,492	373,868	—	— No
23	Tian Wenguo	Executive Vice President	Male	43	3/2010	3/2013	363,979	—	90,810	273,169	272,984	—	Note 2 No
24	Qiu Weizhao	Executive Vice President	Male	49	3/2010	3/2013	411,600	—	—	411,600	308,700	—	— No
25	Fang Qingfeng	Executive Vice President	Male	44	3/2010	3/2013	562,500	—	—	562,500	421,874	—	— No
26	Chen Jie	Senior Vice President	Female	54	3/2010	3/2013	744,583	—	—	744,583	558,436	—	— No
27	Zhao Xianming	Senior Vice President	Male	46	3/2010	3/2013	431,873	—	—	431,873	323,905	—	— No
28	Pang Shengqing	Senior Vice President	Male	44	3/2010	3/2013	521,402	—	—	521,402	391,051	—	— No
29	Zeng Xuezhong	Senior Vice President	Male	39	3/2010	3/2013	567,600	—	—	567,600	425,700	—	— No
30	Xu Huijun	Senior Vice President	Male	39	3/2010	3/2013	510,945	—	—	510,945	383,209	—	— No

No.	Name	Title	Gender	Age	Term of office Commencing on	Term of office ending on	Number of A shares held at the beginning of the reporting period (shares)	Increase in the number of shares held during the period (shares)	Decrease in the number of shares held during the period (shares)	Number of A shares held at the end of the reporting period (shares)	Including: number of restricted shares held (shares)	Number of restricted shares under share incentive scheme at the end of the period (shares)	Reason for the change	Whether remuneration is received from shareholder entities or other connected entities
31	Ye Weimin	Senior Vice President	Male	46	3/2010	3/2013	516,331	–	–	516,331	387,248	–	–	No
32	Ni Qin	Senior Vice President	Male	53	3/2010	3/2013	710,560	–	–	710,560	532,920	–	–	No
33	Wu Zengqi	Senior Vice President	Male	48	3/2010	3/2013	486,570	–	–	486,570	364,927	–	–	No
34	Zhu Jinyun	Senior Vice President	Male	40	3/2010	3/2013	482,460	–	–	482,460	361,844	–	–	No
35	Zhang Renjun	Senior Vice President	Male	43	3/2010	3/2013	–	–	–	–	–	–	–	No
36	Wang Jiaran	Senior Vice President	Male	43	3/2012	3/2013	51,107	–	–	51,107	38,330	–	–	No
37	Chen Jianzhou	Senior Vice President	Male	42	3/2012	3/2013	49,828	–	–	49,828	37,371	–	–	No
38	Feng Jianxiang	Secretary to the Board of Directors	Male	38	3/2010	3/2013	315,000	–	40,000	275,000	236,250	–	Note 2	No
Total	–	–	–	–	–	–	10,752,616	–	130,810	10,621,806	8,064,448	–	–	–

Note 1: Mr. Lei Fanpei resigned as Non-executive Director, Vice Chairman of the Fifth Session of the Board of Directors and member of the Remuneration and Evaluation Committee under the Board of Directors of the Company on 9 February 2012.

Note 2: Reduction or increase of shareholdings in accordance with “Rules Governing the Holding of Shares in the Company by Directors, Supervisors and Senior Management of Listed Companies and Changes Thereof”.

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

#### Share incentives granted to Directors, Supervisors and senior management during the reporting period

Applicable  N/A

## (II) INFORMATION CONCERNING DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY HOLDING POSITIONS IN CORPORATE SHAREHOLDERS OF THE COMPANY

Name	Name of corporate shareholder	Position with the corporate shareholder	Date of commencement of appointment	Date of conclusion of appointment	Whether receiving remuneration or allowances at the corporate shareholder
Xie Weiliang	Zhongxingxin	Chairman	April 2010	May 2013	No
	CASIC Shenzhen (Group) Company Limited	Director and general manager	February 2003	Incumbent	Yes
Zhang Junchao	Zhongxingxin	Vice chairman	April 2010	May 2013	No
	Xi’an Microelectronics	Authorized representative	October 2003	Incumbent	No
Dong Lianbo	Zhongxingxin	Director	April 2010	May 2013	No
	CASIC Shenzhen (Group) Company Limited	Director and deputy general manager	February 2003	Incumbent	Yes
Zhang Taifeng	Zhongxingxin	Vice chairman	April 2010	May 2013	No
Wei Zaisheng	Zhongxingxin	Director	April 2010	May 2013	No

**Directors, Supervisors, Senior Management and Employees****(III) INFORMATION CONCERNING DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY HOLDING MAJOR POSITIONS IN OTHER ENTITIES**

<b>Name</b>	<b>Name of other entities</b>	<b>Position with other entities</b>	<b>Whether receiving remuneration or allowances at such other entities</b>
Hou Weigui <sup>Note 1</sup>	Held positions in 16 subsidiaries including Zhongxing Software	Chairman/director	No
	Zhongxing WXT	Chairman	No
	Zhongxing Development	Chairman	No
	Zhongxing Energy Company Limited	Chairman	No
Lei Fanpei	China Aerospace Science and Technology Corporation	Deputy general manager	Yes
	Beijing Shenzhou Aerospace Software Technology Co., Ltd.	Chairman	No
	China Astronautic Publishing House Co., Ltd.	Executive director	No
Zhang Jianheng <sup>Note 2</sup>	China Aerospace Science and Technology Corporation	Deputy general manager	Yes
	China Aerospace International Holding Limited	Non-executive director and board chairman	No
Xie Weiliang	Shenzhen Aerospace Guangyu Industrial Company Limited	General manager	No
Wang Zhanchen	China Aerospace Times Electronics Co., Ltd.	Vice Chairman	No
Dong Lianbo	Shenzhen Aerospace Guangyu Industrial Company Limited	Deputy general manager	No
Shi Lirong <sup>Note 3</sup>	Held positions in 13 subsidiaries including ZTE Kangxun	Chairman/director	No
	Zhongxing WXT	Director	No
	ZTE HK	Director	No
	Zhongxing Energy Company Limited	Director	No
Yin Yimin <sup>Note 4</sup>	Held positions in 8 subsidiaries including ZTE Kangxun	Director	No
	Zhongxing WXT	Vice chairman	No
	Shenzhen Hekang Investment Management Company Limited	Director	No
	ZTE Capital	Chairman/general manager	Yes
He Shiyou	Held positions in 4 subsidiaries including Shenzhen ZTE Mobile Telecom Company Limited	Chairman/director	No
	Zhongxing WXT	Supervisor	No
Qu Xiaohui <sup>Note 5</sup>	Xiamen University	Director/professor	Yes
	Yunnan Baiyao Group Co., Ltd.	Independent non-executive director	Yes
	Taikang Life Insurance Co., Ltd.	Independent non-executive director	Yes
	Guangzhou Baiyun Electric Equipment Co., Ltd.	Independent non-executive director	Yes
	Xiamen NetinNet Software Company Limited	Financial advisor	Yes

<b>Name</b>	<b>Name of other entities</b>	<b>Position with other entities</b>	<b>Whether receiving remuneration or allowances at such other entities</b>
Wei Wei <sup>Note 6</sup>	Peking University HSBC Business School	Associate dean	Yes
	Changyuan Group Company Limited	Independent non-executive director	Yes
	Dalian Zhangzidao Fishery Group Company Limited	Independent non-executive director	Yes
	Telling Telecommunication Holding Co., Ltd.	Independent non-executive director	Yes
Chen Naiwei <sup>Note 7</sup>	Shanghai Allbright Law Offices	Partner/lawyer	Yes
	Fudan University	Professor	Yes
	Shanghai Pharmaceuticals Holding Co., Ltd.	Independent non-executive director	Yes
	Shanghai Taisheng Wind Power Equipment Co., Ltd.	Independent non-executive director	Yes
Tan Zhenhui	Beijing Jiaotong University	Director of University Academic Committee/ professor	No
	Jiangsu Tongding Optic-electronic Stock Co., Ltd.	Independent non-executive director	Yes
	Metarnet Technologies Co., Ltd.	Independent non-executive director	Yes
Timothy Alexander Steinert	Alibaba Group Holding Limited	Chief legal officer	Yes
Zhang Taifeng	Held positions in 3 subsidiaries including ZTE Kangxun	Chairman	No
Zhou Huidong	Held positions in 6 subsidiaries including Shenzhen ZTE Netview Technology Company Limited	Supervisor	No
Wang Yan	Held positions in 2 subsidiaries including Zhongxing Xinyu	Director/supervisor	No
Wei Zaisheng	Held positions in 18 subsidiaries including ZTE Kangxun	Chairman/director	No
	Zhongxing WXT	Director	No
	Zhongxing Energy Company Limited	Director	No
	Shenzhen Venture Capital Co., Ltd.	Supervisor	No
Xie Daxiong	Held positions in 5 subsidiaries including Tianjin Zhongxing Software Company Limited	Chairman/director	No
Tian Wenguo	Held positions in 5 subsidiaries including Shenzhen ZTE Supply Chain Co., Ltd.	Chairman/director	No
Qiu Weizhao	Held positions in 2 subsidiaries including Shenzhen Zhongxing Microelectronics Technology Company Limited	Director	No
Fan Qingfeng	Held positions in 6 subsidiaries including Shenzhen Zhongliancheng Electronic Development Company Limited	Chairman/director	No
Chen Jie	Held positions with 13 subsidiaries including ZTEsoft Technology Company Limited	Chairman/director/general manager	No

**Directors, Supervisors, Senior Management and Employees**

<b>Name</b>	<b>Name of other entities</b>	<b>Position with other entities</b>	<b>Whether receiving remuneration or allowances at such other entities</b>
Zhao Xianming	Held positions in 3 subsidiaries including ZTE Integration Telecom Company Limited	Chairman/director	No
Pang Shengqing	Held positions in 2 subsidiaries including ZTE Japan K.K.	Director	No
Zeng Xuezhong	Held positions in 6 subsidiaries including Anhui Wantong Postal and Telecom Company Limited	Chairman	No
Xu Huijun	Held positions in 5 subsidiaries including Wuxi Zhongxing Optoelectronics Technologies Company Limited	Chairman/director/general manager	Note 8
Ni Qin	Tianjin Zhongxing Software Company Limited	Director	No
Zhang Renjun	ZTE Japan K.K.	Director	No
Chen Jianzhou	Held positions within 2 subsidiaries including ZTE Kangxun	Supervisor	No
Feng Jianxiong	Held positions in 4 subsidiaries including Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	Director/supervisor	No

Note 1: Mr. Hou Weigui was appointed chairman of Changsha Zhongxing Software Company Limited in February 2012;

Note 2: Mr. Zhang Jianheng was appointed non-executive director and board chairman of China Aerospace International Holding Limited on 26 March 2012;

Note 3: Mr. Shi Lirong was appointed director of 北京中興網捷科技有限公司 and Changsha Zhongxing Software Company Limited in February 2012;

Note 4: Mr. Yin Yimin ceased to be director of 北京中興網捷科技有限公司 as from February 2012;

Note 5: Ms. Qu Xiaohui was from May 2009 to April 2012 and will continue to be from April 2012 to April 2015 independent non-executive director of Yunnan Baiyao Group Co., Ltd.

Note 6: Mr. Wei Wei was from April 2009 to April 2012 and will continue to be from April 2012 to April 2015 independent non-executive director of Changyuan Group Company Limited.

Note 7: Mr. Chen Naiwei was from July 2010 to June 2012 and will continue to be from July 2012 to July 2015 independent non-executive director of Shanghai Taisheng Wind Power Equipment Co., Ltd.

Note 8: Mr. Xu Huijun received allowances from 2 subsidiaries including Shenzhen ZTE Netview Technology Company Limited.

#### **(IV) DECISION-MAKING PROCESS, BASES FOR DETERMINATION AND ACTUAL PAYMENT OF REMUNERATION FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY**

Allowances for Directors are based on recommendations of the Remuneration and Evaluation Committee of the Board of Directors made with reference to the duties of Directors at the Company and markets levels represented by other listed companies in the same industry and determined upon consideration and approval by the Board of Directors and the General Meeting.

Allowances for Supervisors are based on recommendations of the Supervisory Committee made with reference to the duties of Supervisors and markets levels represented by other listed companies in the same industry and determined upon consideration and approval by the General Meeting.

The remuneration for senior management personnel is based on the results of annual performance appraisals conducted by the Remuneration and Evaluation Committee and determined upon consideration by the Board of Directors.

Remuneration for the Directors, Supervisors and senior management are determined and payable by the Company in accordance with the aforesaid provisions and procedures.

#### **(V) CHANGES IN DIRECTORS SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY**

The Board of the Company received a “resignation report” in writing from Non-executive Director Mr. Lei Fanpei on 9 February 2012. Because of the redeployment of his work, Mr. Lei Fanpei wished to resign from the positions of Non-executive Director, Vice Chairman of the Fifth Session of the Board of Directors and member of the Remuneration and Evaluation Committee under the Board of Directors. Mr. Lei’s resignation became effective upon delivery of his “resignation report” to the Board of Directors. Following his resignation, Mr. Lei will not hold any position at the Company. For details, please refer to the “Announcement of Resignation of Non-executive Director” published by the Company dated 9 February 2012.

At the fourth meeting of the Nomination Committee of the Fifth Session of the Board of Directors of the Company and the Twenty-fifth Meeting of the Fifth Session of the Board of Directors held on 22 February 2012, the “Resolution on the Nomination of Candidate for Non-independent Director” was considered and passed, whereby the Fifth Session of the Board of Directors nominated Mr. Zhang Jianheng as the candidate for Non-independent Director of the Company. The resolution was considered and approved at the First Extraordinary General Meeting of 2012 of the Company held on 11 April 2012. Mr. Zhang Jianheng’s appointment shall be for a term commencing on the date of consideration and approval at the First Extraordinary General Meeting of 2012 and ending upon the conclusion of the term of the Fifth Session of the Board of Directors (namely 29 March 2013). At the Twenty-eighth Meeting of the Fifth Session of the Board of Directors held on 11 April 2012, the “Resolution on the Election of the Vice Chairman of the Fifth Session of the Board of Directors” and the “Resolution on the Election of a New Member as Replacement to the Remuneration and Evaluation Committee of the Fifth Session of the Board of Directors” were considered and approved, whereby Mr. Zhang Jianheng was elected Vice Chairman of the Fifth Session of the Board of Directors and a new member for replacement to the Remuneration and Evaluation Committee. For details please refer to the Company’s “Announcement of Resolutions of the Twenty-fifth Meeting of the Fifth Session of the Board of Directors” dated 22 February 2012 and the “Announcement of Resolutions of the First Extraordinary General Meeting of 2012” and “Announcement of Resolutions of the Twenty-eighth Meeting of the Fifth Session of the Board of Directors” dated 11 April 2012.

At the fifth meeting of the Nomination Committee of the Fifth Session of the Board of Directors held on 27 March 2012 and the Twenty-seventh Meeting of the Fifth Session of the Board of Directors held on 28 March 2012, the “Resolution on the Appointment of Senior Management Personnel” was considered and passed, whereby it was approved that Mr. Wang Jiaran, general manager of the Second Sales Division, be appointed

## **Directors, Supervisors, Senior Management and Employees**

as Senior Vice President for a term commencing on the date on which the resolution was considered and passed at the Twenty-seventh Meeting of the Fifth Session of the Board of Directors and ending upon the conclusion of the Fifth Session of the Board of Directors (namely 29 March 2013), and that Mr. Chen Jianzhou, Structure and Process Officer of the Company, be appointed as Senior Vice President for a term commencing on the date on which the resolution was considered and passed at the Twenty-seventh Meeting of the Fifth Session of the Board of Directors and ending upon the conclusion of the Fifth Session of the Board of Directors (namely 29 March 2013). For details, please refer to the “Announcement of Resolutions of the Twenty-seventh Meeting of the Fifth Session of the Board of Directors” published by the Company dated 28 March 2012.

Please refer to sections (II) and (III) in this chapter for details of positions at corporate shareholders and major positions at other entities held by Directors, Supervisors and senior management of the Company.

### **(VI) INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE OFFICER OF THE COMPANY IN SHARES OR DEBENTURES**

The interests in shares of the Company held by Directors, Supervisors and Chief Executive Officer of the Company as at 30 June 2012 are set out in the section of this chapter headed “Changes in the Shareholdings of the Company’s Directors, Supervisors and Senior Management”.

Save as disclosed above, as at 30 June 2012, none of the Directors, Supervisors and Chief Executive Officer of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that is required to be recorded in the register to be kept under Section 352 of the SFO, or otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Hong Kong Listing Rules.

As at 30 June 2012, none of the Directors, Supervisors or the Chief Executive Officer of the Company, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

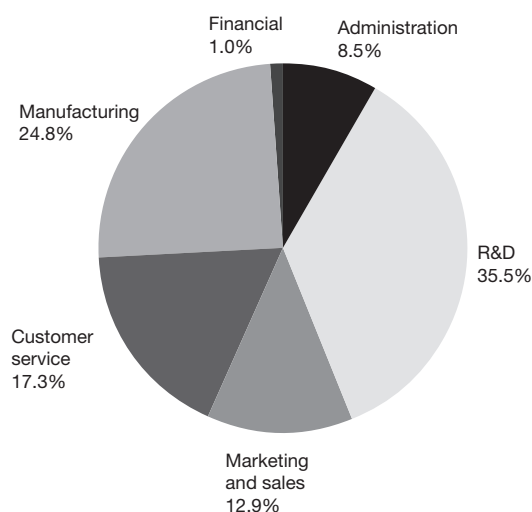


**(VII) HEADCOUNT AND CLASSIFICATION OF GROUP EMPLOYEES**

As at the end of the reporting period, the Group had 86,980 employees <sup>Note</sup>, with an average age of 31. There were 77 retired employees, including 28 retired employees in respect of which expenses were payable by the Company.

## 1. Classification by specialisation:

<b>Specialisation</b>	<b>Headcount</b>	<b>As an approximate percentage of total headcount (%)</b>
R&D	30,876	35.5%
Marketing and sales	11,232	12.9%
Customer service	15,016	17.3%
Manufacturing	21,568	24.8%
Financial	858	1.0%
Administration	7,430	8.5%
<b>Total</b>	<b>86,980</b>	<b>100.0%</b>



## 2. Classification by academic qualifications:

<b>Academic qualifications</b>	<b>Headcount</b>	<b>As an approximate percentage of total headcount (%)</b>
Doctorate degree	507	0.6%
Master's degree	24,762	28.5%
Bachelor's degree	33,136	38.1%
Others	28,575	32.8%
<b>Total</b>	<b>86,980</b>	<b>100.0%</b>

Note: Including 69,358 as employees of the parent company.

# Report of the Board of Directors

The Board of Directors of the Company is pleased to present this interim report together with the financial statements of the Group for the six months ended 30 June 2012.

## FINANCIAL RESULTS

Please refer to page 71 and page 193 of this report for the results of the Group for the six months ended 30 June 2012 prepared in accordance with PRC ASBEs and HKFRSs.

### (I) REVIEW OF BUSINESS IN THE FIRST HALF OF 2012

#### 1. Overview of the PRC telecommunications industry in the first half of 2012

During the first half of 2012, developments of the domestic telecommunications industry were mainly focused on three areas, namely capacity expansion, upgrades and transformation. Continued efforts were being made to advance the construction of wireless networks, broadband networks and their ancillary facilities, while innovations were sought in the business models of Mobile Internet and telecommunications VAT services, in a bid to drive business development in the Internet of Things and Cloud Computing. According to statistics published by the Ministry of Industry and Information Technology, revenue from principal operations for the domestic telecommunications sector amounted to RMB517.53 billion for the first six months of 2012, representing a year-on-year growth of 9.2%.

#### 2. Overview of the global telecommunications industry in the first half of 2012

Investment in equipment in the global telecommunications industry slackened during the first half of 2012. Regional differences remained as emerging markets such as Latin America, Middle East and Asia Pacific continued to enjoy faster investment growth. With the gradual phase-out of 2G networks and the further optimisation and upgrades of 3G networks, commercial deployment of 4G networks has commenced in many countries around the world. In the meantime, global broadband construction continued to be boosted by policy support for and financial commitments to the national broadband strategy in various countries. Smart terminals continued to account for an increasing share of the market, in line with growing popular demand for the product driven by the rapid development of Mobile Internet and the growing variety of mobile applications.

#### 3. Operating results of the Group for the first half of 2012

During the first half of 2012, the Group achieved relatively fast growth in overall revenue courtesy to efforts to explore market niches and enhance its market position through initiatives in the perfection and innovation of product technologies, as competition in global telecommunications industry became more rational. Terminals remained on track for fast growth, while telecommunications software systems, services and other products sustained existing growth rates. Nevertheless, the Group's net profit declined in comparison to the same period last year, reflecting reduced investment income, exchange losses, postponement of network contract tenders of certain domestic carriers and lower gross profit margin. For the first six months of 2012, the Group reported operating revenue of RMB42.642 billion, representing a year-on-year growth of 15.21%. Net profit attributable to the shareholders of the parent company amounted to RMB245 million, decreasing by 68.17% as compared to the same period last year. Earnings per share amounted to RMB0.07 per share.

##### 1) *By market*

###### *The domestic market*

During the reporting period, the Group reported operating revenue of RMB20.885 billion from the domestic market, accounting for 48.98% of the Group overall operating revenue and representing a year-on-year growth of 26.37%. The Group secured its existing market shares by working in close tandem with the technical selection and network construction of operators, while striving for new market shares by introducing new technologies and products and differentiated solutions.

*The international market*

During the reporting period, the Group reported operating revenue of RMB21.757 billion from the international market, accounting for 51.02% of the Group's overall operating revenue and representing a year-on-year growth of 6.20%. With a strong focus on populous nations and mainstream global carriers, the Group consolidated its market shares in emerging markets, while winning recognition in its work to enhance cooperation with mainstream global carriers on different products. As well as reinforcing its operation in current mainstream products, the Group was vigorously planning for new strategic niches.

**2) By product**

For the reporting period, the Group reported operating revenue of RMB21.280 billion for carriers' networks, representing year-on-year growth of 3.89%. Operating revenue for terminal products amounted to RMB14.248 billion, representing year-on-year growth of 27.05%. Operating revenue for telecommunication software systems, services and other products amounted to RMB7.114 billion, representing year-on-year growth of 33.82%.

*Carriers' networks*

During the period under review in the first half of 2012:

In connection with wireless products, the Group searched deep in emerging markets to identify new business opportunities on the back of its strengths in Uni-RAN and C-RAN solutions, while enhancing cooperation with global mainstream carriers to drive network upgrade and evolution to the 4G generation, as well as vigorously promoting cross-sector integration of mobile broadband to meet demands from the government and enterprise sectors. Meanwhile, the Group strengthened its in-depth operation of wireless products, striking balance between scale and profitability in this business segment to ensure sustainable development while keeping up with required network performance indicators and delivery schedules.

In connection with wireline products, the Group reported relatively fast growth in revenue from domestic optical communications products amidst rapid development of the domestic broadband market and the construction of ancillary facilities for Mobile Internet to sustain its position in the domestic market.

In connection with service products, the Group focused on the markets of personal services, household services and government and corporate services, ensuring sound development of its service products through ongoing efforts to optimise its market footprint.

*Terminals*

During the first six months of 2012, the Group sustained high growth for the sales of its smart terminals, which accounted for an increasing share of sales. As the 3G business in China was undergoing large-scale development, the Group reported fast growth in the domestic sales of its 3G smart terminals in various modes. In the international market, the Group also commenced large scale marketing of its smart terminals in developed markets such as the United States and France.

*Telecommunication software systems, services and other products*

For the reporting period, revenue from the Group's telecommunications software systems, services and other products reported year-on-year growth of 33.82%, underpinned by rapid growth in revenue from the video and network terminal product segment and the service product segment.

## Report of the Board of Directors

### (II) MANAGEMENT DISCUSSION AND ANALYSIS PREPARED IN ACCORDANCE WITH PRC ASBES

The financial data below are extracted from the Group's unaudited financial statements prepared in accordance with PRC ASBES. The following discussion and analysis should be read in conjunction with the Group's financial statements and the accompanying notes thereto.

#### 1. Overall operating results of the Group during the reporting period

Unit: RMB in thousands

Item	Six months ended 30 June 2012	Six months ended 30 June 2011 (Restated)	Percentage of increase/decrease
Operating revenue	42,641,898	37,013,111	15.21%
Operating profit <sup>Note 1</sup>	(863,347)	683,744	-226.27%
Net profit <sup>Note 2</sup>	244,875	769,271	-68.17%

Note 1: The year-on-year decrease in operating profit was attributable to a lower gross profit margin and the increase in finance costs for the reporting period;

Note 2: The amount of net profit represented amount attributable to shareholders of the parent. The year-on-year decrease was attributable to a lower gross profit margin and the increase in finance costs for the reporting period.

#### 2. Breakdown of indicators for the reporting period by industry, product and region segments and comparison with the same period last year

Revenue mix	Operating revenue (RMB in thousands)	Operating costs (RMB in thousands)	Gross profit margin	Year-on-year increase/decrease in operating revenue	Year-on-year increase/decrease in operating costs	Year-on-year increase/decrease in gross profit margin
<b>I. By industry</b>						
Manufacturing of communication equipment	42,641,898	31,277,990	26.65%	15.21%	19.18%	-2.45%
Total	42,641,898	31,277,990	26.65%	15.21%	19.18%	-2.45%
<b>II. By product</b>						
Carriers' networks	21,279,581	14,421,544	32.23%	3.89%	7.16%	-2.06%
Terminals	14,248,064	11,882,809	16.60%	27.05%	31.84%	-3.03%
Telecommunication software systems, services and other products	7,114,253	4,973,637	30.09%	33.82%	31.85%	1.05%
Total	42,641,898	31,277,990	26.65%	15.21%	19.18%	-2.45%
<b>III. By region</b>						
The PRC	20,884,864	14,805,138	29.11%	26.37%	35.22%	-4.64%
Asia (excluding the PRC)	8,009,957	6,162,258	23.07%	17.66%	17.09%	0.37%
Africa	3,923,335	2,400,468	38.82%	-21.72%	-18.51%	-2.40%
Europe, Americas and Oceania	9,823,742	7,910,126	19.48%	13.34%	11.63%	1.24%
Total	42,641,898	31,277,990	26.65%	15.21%	19.18%	-2.45%

Including: RMB1,301,000 as the aggregate amount of connected transaction in the sales of products and provision of labour service by the Company to the controlling shareholder and its subsidiaries.

Note: Connected transaction as defined under the Shenzhen Stock Exchange Listing Rules and other domestic securities regulatory provisions.

3. Indicators for major products accounting for over 10% of the Group's operating revenue for the reporting period

Unit: RMB in thousands

<b>By product</b>	<b>Operating revenue</b>	<b>Operating costs</b>	<b>Gross profit margin</b>
Carriers' network	21,279,581	14,421,544	32.23%
Terminals	14,248,064	11,882,809	16.60%
Telecommunication software systems, services and other products	7,114,253	4,973,637	30.09%

4. Reasons for substantial change in the Group's principal business and its structure, breakdown of profit, profitability of principal business during the reporting period.

- (1) There was no significant change in the principal business and its structure during the reporting period compared to the same period last year.
- (2) Changes in the breakdown of profit during the reporting period compared to the same period last year are set out as follows:

<b>Item</b>	<b>As a percentage of total profit for the six months ended 30 June 2012</b>	<b>As a percentage of total profit for the six months ended 30 June 2011</b>	<b>Change (percentage points)</b>
Operating profit	-131.68%	53.72%	-185.40
Expenses for the period	1,711.03%	797.86%	913.17
Investment gains	13.86%	91.56%	-77.70
Non-operating income and expenses, net	231.68%	46.28%	185.40

Note: The substantial decrease in operating profit as a percentage of total profit was attributable mainly to a lower gross profit margin and the increase in finance costs; the substantial increase in expenses for the period as a percentage of total profit was attributable mainly to the increase in investment in marketing and R&D in line with the expansion of the Company's scale of operations; the substantial decrease in investment gains as a percentage of total profit was attributable mainly to investment gains arising from the disposal of equity interests in Nationz Technologies and the investment gains from fair-value changes of certain derivative investments upon settlement on maturity for the same period last year; the substantial increase in non-operating income and expenses, net as a percentage of total profit was mainly attributable to the increase in income from VAT rebate for software products.

- (3) There was no significant change in the profitability (gross profit margin) of principal business during the reporting period compared to the same period last year.

5. During the reporting period, the Group was not engaged in any other operating activities that had a significant impact on its net profit.

## Report of the Board of Directors

### 6. Investment gains generated from an individual investee company accounting for more than 10% of the net profit of the Group during the reporting period.

Jufei, a company in which the Group held an indirect interest, was engaged in the business of machinery equipment and instruments. As at the end of the reporting period, the Company was the controlling shareholder of Changfei with a 51% shareholding, while Changfei was interested in 12.87 million shares in Jufei accounting for 16.09% of Jufei's total share capital. For the first half of 2012, the net profit of Jufei amounted to RMB45,649,500. The investment gain contributions to the Group amounted to RMB35,273,600, accounting for 14.40% of the Group's net profit. For details, please refer to "V. Material Matters – (XI) INVESTMENT IN SECURITIES AND EQUITY INTERESTS IN OTHER LISTED COMPANIES" in this report.

### 7. Difficulties encountered by the Group in its operations during the first half of 2012

The reporting period was underpinned by slackened global economic growth, continued competition in the telecommunications industry and volatility in exchange rates.

### 8. Operating information and results of principal subsidiaries

Unit: RMB in thousands

Name of company	Registered capital	Shareholding percentage	Scope of business	Total assets	Net assets	Revenue from principal operations	Profit from principal operations	Net profit
Zhongxing Software	RMB52.08 million	98%	Software development	22,002,625	6,083,362	6,712,079	6,198,078	1,147,189
ZTE HK	HKD500 million	100%	General business	22,285,614	2,103,933	9,515,946	1,811,106	666,252
Shenzhen Zhongxing Telecom Technology & Service Company Limited	RMB50 million	100%	Communications engineering technology services	3,359,076	1,508,097	1,888,307	1,155,641	973,359
ZTE Kangxun	RMB1,950 million	90%	Production of electronic products and components	19,662,968	2,210,654	22,775,252	383,330	(26,879)
ZTEsoft Technology Company Limited	RMB202 million	75%	Outsourcing of system works	1,995,868	962,899	536,956	227,940	46,096
Changfei	RMB30 million	51%	Investment in industrial operations	3,133,984	756,305	1,559,698	151,275	109,450
Shenzhen ZTE Mobile Telecom Company Limited	RMB39.58 million	80%	Production and sales communications products	2,047,893	775,485	1,666,040	398,610	188,865
Shanghai Zhongxing Telecom Technology Company Limited	RMB10 million	51%	Production and sales communications products	477,768	93,739	236,884	64,790	8,369
Xi'an Zhongxingxin Software Company Limited	RMB600 million	100%	Software development for communication services	3,195,061	667,599	193,826	189,953	(173,962)
ZTE (Hangzhou) Company Limited	RMB100 million	100%	Manufacturing of communications and related equipment	1,393,855	171,223	871,926	12,470	(3,399)
Shenzhen ZTE ICT Company Limited	RMB30 million	80%	Design and sales of corporate management software/hardware products	381,212	269,780	132,040	80,201	28,757

For information of other subsidiaries and principal investee companies, please refer to Note IV. 1. "Subsidiaries" and Note V.12. "Long-term equity investments" to the financial statements prepared in accordance with PRC ASBES.

## 9. Internal control systems relating to fair value measurement

### (1) Items relating to fair value measurement

Unit: RMB in thousands

Item	Opening balance	Gains/losses arising from fair value change for the period	Cumulative fair value change dealt with in equity	Impairment charge for the period	Closing balance
Financial assets					
Including: 1. Financial assets at fair value through profit or loss	95,618	(64,431)	—	—	91,507
Including: derivative financial assets	8,438	—	—	—	28,021
2. Available-for-sale financial assets	—	—	—	—	—
Sub-total of financial assets	95,618	(64,431)	—	—	91,507
Financial liabilities <sup>Note</sup>	5,305	32,992	(9,344)	—	32,218
Investment properties	—	—	—	—	1,595,977
Productive living assets	—	—	—	—	—
Others	—	—	—	—	—
<b>Total</b>	<b>—</b>	<b>(31,439)</b>	<b>(9,344)</b>	<b>—</b>	<b>—</b>

Note: Financial liabilities included derivative financial liabilities.

Where valuation techniques have been adopted for both years to determine the fair value of the same item or similar items, is there any significant difference in the valuation results? Please explain in detail if there is.

Yes  No  N/A

### (2) Fair value changes in items measured at fair value and their impact on the Company's profit

Financial instruments of the Company are stated at historical costs, except for a small number of derivative financial instruments which are measured at fair value based on market prices. Gains or losses arising from fair value changes in the Company's derivative financial instruments measured at fair value were subject to uncertainties relating to fluctuations in RMB and USD forward exchange rates.

### (3) Internal control systems relating to fair value measurement

The Company has established a fair value measurement internal control system to be operated through collaboration of various departments under the leadership of the Chief Financial Officer. The Fair Value Measurement Internal Control Measures (《公允價值計量的內部控制辦法》) has been formulated as a complement to the "ZTE Accounting Policies" (《中興通訊會計政策》) and the "ZTE Internal Control System" (《中興通訊內部控制制度》) to regulate the application and disclosure of fair value measurements.

## Report of the Board of Directors

### 10. Financial assets and financial liabilities held in foreign currencies

Unit: RMB in thousands

Item	Opening balance	Gains/losses arising from fair value change for the period	Cumulative fair value change dealt with in equity	Impairment charge for the period	Closing balance
Financial assets					
Including: 1. Financial assets at fair value through profit or loss	8,438	(40,737)	—	—	28,021
Including: derivative financial assets	8,438	(40,737)	—	—	28,021
2. Loans and receivables	37,049,026	—	—	(286,286)	27,207,277
3. Available-for-sale financial assets	184,974	—	—	—	181,810
4. Held-to-maturity investments	—	—	—	—	—
Sub-total of financial assets	37,242,438	(40,737)	—	(286,286)	27,417,108
Financial liabilities	11,818,759	32,992	(9,344)	—	23,712,519

### 11. Technological innovation

Proprietary development of innovative products is and will be a key development strategy for the Group. Through optimised systems establishment, enhanced platform development and project-based operation, improved R&D efficiency, we have fostered a leading edge in technology that provides strong assurance for swift business development. The Group has also established an effective mechanism to encourage its staff to engage in investigations and innovations in new frontiers, businesses and technologies.

The Group maintains an annual R&D budget equivalent to approximately 10% of its operating revenue. We currently employ over 30,000 R&D personnel deployed in 19 R&D centres located variously in China, the United States, Sweden, France and India. We have built more than 10 joint innovation centres in association with leading carriers to ensure success in the market through better assessment of market demand and customers' experience.

As at 30 June 2012, the Group had filed applications for the global patents of 45,000 items and received patents for over 12,000 items. We had published PCT International Patent Applications for 1,829 items, making us the world's largest applicant in this category. Moreover, the Group is member of more than 70 international standardisation organisations and forums, having presented over 20,000 papers to international standardisation organisations and obtained editorships and authorships for more than 160 international standards.

In the first half of 2012, the Group undertook to lead in a number of research projects designated by the government, including the "new-generation broadband wireless mobile telecom network (Key Project III)," "next-generation internet technology R&D, industrialisation and large-scale commercial application" and "electronic development fund," etc.

The "ZTE Forum for Cooperation of Enterprises, Academies and Research Institutes in Telecommunications" (the "Forum") has been formed to solicit memberships among leading domestic colleges and research institutes specializing in communications technologies, in support of the government's call for the formation of a regime for cooperation in technological innovation, where the business, academic and research sectors join forces in market-oriented initiatives under the leadership of business enterprises. By far 24 institutions have joined the Forum.



## 12. Investments

### (1) General information on the use of proceeds

#### 1 Bonds cum Warrants — 中興債<sup>1</sup>

The Company issued 40 million bonds cum warrants with a value of RMB4 billion (“Bonds cum Warrants”) on 30 January 2008. The net proceeds of RMB3,961,443,520 raised from the issue of the Bonds cum Warrants after deduction of the underwriting commission, sponsorship fees and registration fees were deposited into the designated account of the Company opened with China Development Bank, Shenzhen Branch (account number: 44301560040310230000) on 5 February 2008. A capital verification report in respect thereof was issued by Shenzhen Nanfang-Minhe CPA Co., Ltd. on 5 February 2008.

As at 31 December 2009, the amount invested by the Company in projects utilising issue proceeds had met the agreed investment amount set out in issue prospectuses (RMB6,550.39 million) and the portion in excess had been funded by the Company’s internal resources. For details, please refer to the “Overseas Regulatory Announcement” published by the Company dated 8 April 2010.

The exercise period for the “中興 ZXC1” Warrants ended on 12 February 2010 and a total of 23,348,590 “中興 ZXC1” Warrants had been exercised generating total issue proceeds of RMB912 million. In order to enhance the efficiency of fund application and reduce finance costs, it was approved at the Thirtieth Meeting of the Fourth Session of the Board of Directors of the Company that the Company would replace internal funds that had previously been invested as partial funding for the issue proceed projects with proceeds from the exercise of the warrants. For details, please refer to the “Overseas Regulatory Announcement” published by the Company dated 24 March 2010.

#### 2 Corporate Bonds — 12中興<sup>01</sup>

The Company issued corporate bonds (the “Issue”) on 13 June 2012 with a finalised issue size of RMB6,000 million, comprising RMB200 million in online issue and RMB5,800 million in offline issue. The gross proceeds raised from the Issue were deposited into the designated account of the Company on 18 June 2012. A capital verification report (“Ernst & Young Hua Ming (2012) Zhuan Zi No. 60438556\_H03”) in respect of the subscription amounts for the online issue, a capital verification report (“Ernst & Young Hua Ming (2012) Zhuan Zi No. 60438556\_H04”) in respect of the subscription amounts for the offline placing and a capital verification report (“Ernst & Young Hua Ming (2012) Zhuan Zi No. 60438556\_H05”) in respect of the actual receipt of issue proceeds were issued by Ernst & Young Hua Ming Co., Ltd. per appointment by the Company.

As considered and approved at the Twenty-sixth Meeting of the Fifth Session of the Board of Directors of the Company and the First Extraordinary General Meeting of 2012 of the Company, proceeds from the Issue shall be applied to the repayment of bank loans and provision of additional working capital for the Company. The actual use of the proceeds shall be determined by the Board of Directors, as authorised by the General Meeting, based on the fund requirements of the Company. For details, please refer to the “Overseas Regulatory Announcement” published by the Company on 11 July 2012.

## Report of the Board of Directors

### (2) Commitments of issue proceeds

For details of the commitment of issue proceeds from the Bonds cum Warrants (中興債1), please refer to the sub-section headed “(1) General information on the use of proceeds 1 Bonds cum Warrants — 中興債1” under this section; details of commitment of issue proceeds from the corporate bonds (12中興01) are as follows:

Unit: RMB in ten thousands

Investment commitments and application of over-subscription proceeds	Whether there have been changes (or partial changes)	Total amount of committed investment of issue proceeds	Total investment after adjustment (1)	Amounted invested during the reporting period	Aggregate amount invested as at the end of the period (2)	Investment fulfilment as at the end of the period (%) (3) = (2)/(1)	Date by which the project is ready for intended use	Profit attained for the reporting period	Whether estimated profit is met	Whether there have been significant changes to project feasibility
Investment commitments										
Repayment of bank loans	No	258,212.60	258,212.60	10,000.00	10,000.00	3.87%	N/A	N/A	N/A	N/A
Working capital replenishments	No	341,787.40	341,787.40	173,785.66	173,785.66	50.85%	N/A	N/A	N/A	N/A
Sub-total of investment commitments	—	600,000.00	600,000.00	183,785.66	183,785.66	—	—	N/A	—	—
application of over-subscription proceeds										
Nil	—	—	—	—	—	—	—	—	—	—
Repayment of bank loans (if any)	—	—	—	—	—	—	—	—	—	—
Working capital replenishments (if any)	—	—	—	—	—	—	—	—	—	—
Sub-total of application of over-subscription proceeds	—	—	—	—	—	—	—	—	—	—
<b>Total</b>	—	<b>600,000.00</b>	<b>600,000.00</b>	<b>183,785.66</b>	<b>183,785.66</b>	—	—	<b>N/A</b>	—	—
Cases of not meeting planned schedules or estimated earnings and reasons therefore (by projects)	N/A									
Statement on significant changes in project feasibility	N/A									
Amount, application and progress of use of over-subscription proceeds	N/A									
Change in the location of implementation of projects utilising issue proceeds	N/A									
Adjustments to the manner of implementation of projects utilising issue proceeds	N/A									
Advanced investment and fund replacement in respect of projects utilising issue proceeds	N/A									
Use of idle fund as provisional working capital replenishments	N/A									
Amount of and reasons for surplus issue proceeds in project implementation	N/A									
Application and whereabouts of unutilised issue proceeds										Out of the RMB6,000 million raised through the issue of corporate bonds, the Company proposed to apply approximately RMB2,582 million to the repayment of bank loans to adjust the Company's debt structure and the remainder as additional working capital replenishments. As at the end of the reporting period, the Company completed repayment of RMB100 million and applied approximately RMB1,738 million as additional working capital. The remaining issue proceeds will be applied according to the original plan, with approximately RMB2,482 million as repayment of bank loans and approximately RMB1,680 million as additional working capital.
Issues in the application and disclosure of issue proceeds or other matters	Nil									

### (3) Change in the use of issue proceeds

Applicable  N/A

**(4) Significant investments using funds other than issue proceeds**

Applicable  N/A

13. **Warnings of and reasons for any projected accumulated net loss from the beginning of the year to the end of the next reporting period or substantial change in accumulated net profit as compared to the same period last year**

Applicable  N/A

14. **Explanatory statement from the Board of Directors on the accountant's "qualified opinion" for the reporting period**

Applicable  N/A

15. **Explanatory statement from the Board of Directors on changes and treatment of matters relating to the accountant's "qualified opinion" for the previous year**

Applicable  N/A

16. **There were no changes in the accounting policies, accounting estimates or adjustments of significant accounting errors of the Group for the reporting period.**

17. **Formulation and implementation of the cash dividend distribution policy**

According to the Articles of Association of ZTE, aggregate profit distribution of the Company in the form of cash in the past three years shall not be less than 30% of the annual average profit available for distribution in the past three years; the profit distribution plan of the Company was formulated by the Board of Directors and approved by the General Meeting. Following a resolution on the profit distribution plan by the General Meeting, the Board of Directors should complete the distribution of dividend (or shares) within two months after the General Meeting; if the Board of Directors has not drawn up a cash profit distribution proposal, the reasons for not making the profit distribution and the use of funds not applied to profit distribution and retained at the Company should be disclosed in regular reports, and the Independent Non-executive Directors should furnish an independent opinion thereon.

The "2011 Profit Distribution Proposal" was considered and approved at the Twenty-seventh Meeting of the Fifth Session of the Board of Directors held on 28 March 2012, pursuant to which the Company proposed a cash dividend of RMB2 (including tax) for every 10 shares held will be paid on the basis of the total share capital of the Company of 3,440,078,020 as at 31 December 2011 less the number of Subject Shares remaining in lock-up under the Share Incentive Scheme as at the A share record date for the purpose of the 2011 profit distribution. The aforesaid profit distribution proposal was considered and approved at the 2011 Annual General Meeting of the Company held on 25 May 2012 and distribution was completed on 18 July 2012. For details of implementation, please refer to the section headed "(II) IMPLEMENTATION OF THE 2011 PROFIT DISTRIBUTION PLAN OF THE COMPANY" in "V. Material Matters" in this report.

Following the completion of the 2011 profit distribution plan, aggregate profit distribution of the Company in the form of cash in the past three years accounted for 89.70% of annual average profit available for distribution in the past three years, in compliance with Article 234 of the Articles of Association which states that "Aggregate profit distribution of the Company in the form of cash in the past three years shall not be less than 30% of the annual average profit available for distribution in the past three years."

## Report of the Board of Directors

The Company did not make any adjustment or change to its cash dividend distribution policy during the reporting period.

### 18. Establishment and implementation of the System of Registration of Owners of Insider Information

To regulate the Company's management of insider information, enhance confidential treatment of insider information and safeguard fairness in information disclosure, the Company formulated the System of Registration of Owners of Insider Information in accordance with provisions of relevant laws and regulations, which was considered and passed at the Thirtieth Meeting of the Fourth Session of the Board of Directors of the Company on 27 October 2009. During the reporting period, the Company diligently implemented relevant provisions of the System of Registration of Owners of Insider Information and vigorously commenced work in insider information management.

No instances of owners of insider information trading in the Company's shares with the benefit of insider information during the reporting period have been identified. Neither the Company nor its relevant personnel had been subject to regulatory measures or administrative punishment by regulatory authorities as a result of alleged involvement in insider trading.

### 19. Other matters

- (1) The Group did not disclose any business plans for 2012 in the 2011 Annual Report.
- (2) The Group did not make any profit forecast in respect of the operating results for the reporting period.
- (3) The consolidated gearing ratio of the Group as at the end of the first half of 2012 was 75.07%, which was basically unchanged from the gearing ratio as at the end of the previous year.

## (III) MANAGEMENT DISCUSSION AND ANALYSIS PREPARED IN ACCORDANCE WITH HKFRSs

The financial data below are extracted from the Group's unaudited financial statements prepared in accordance with HKFRSs. The following discussion and analysis should be read in conjunction with the Group's financial statements and the accompanying notes as set out in this report.

### Operating revenue

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

Unit: RMB in millions

Product segment	For the six months ended 30 June 2012		For the six months ended 30 June 2011 (Restated)	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
Carriers' networks	21,279.6	49.9%	20,482.1	55.3%
Terminals	14,248.1	33.4%	11,214.7	30.3%
Telecommunication software systems, services and other products	7,114.2	16.7%	5,316.3	14.4%
<b>Total</b>	<b>42,641.9</b>	<b>100.0%</b>	<b>37,013.1</b>	<b>100.0%</b>

The following table sets out the operating revenue of the Group and the corresponding percentage of the total operating revenue attributable to the PRC, Asia (excluding the PRC), Africa, Europe, Americas and Oceania for the periods indicated:

Unit: RMB in millions

Region	For the six months ended 30 June 2012		For the six months ended 30 June 2011 (Restated)	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
The PRC	20,884.9	49.0%	16,526.8	44.7%
Asia (excluding the PRC)	8,010.0	18.8%	6,807.6	18.4%
Africa	3,923.3	9.2%	5,011.6	13.5%
Europe, the Americas and Oceania	9,823.7	23.0%	8,667.1	23.4%
<b>Total</b>	<b>42,641.9</b>	<b>100.0%</b>	<b>37,013.1</b>	<b>100.0%</b>

The Group reported RMB42,641.9 million in operating revenue for the first six months of 2012, a 15.2% growth as compared to the same period last year. Our domestic business sustained growth in operating revenue, which increased by 26.4% to RMB20,884.9 million. Analysed by product, significant year-on-year growth was reported for terminals, and telecommunications software systems, services and other products. Our carriers' networks segment also reported a slight growth in revenue as compared to the same period last year, ensuring that an overall growth trend for the Group's total operating revenue was sustained for the first six months of 2012.

The slight increase in operating revenue from the Group's carriers' networks segment for the first six months of 2012 reflected mainly growth in revenue derived from wireless products in the domestic and international markets and from optical communications systems and data products in the domestic market, offset by the decline in revenue derived from wireline switch and access products in the domestic and international markets and from optical communications systems and data products in the international market, resulting in a relatively small margin of growth.

The substantial increase in operating revenue from the Group's terminals segment for the first six months of 2012 was driven mainly by growth in revenue derived from 3G handsets and CDMA handsets in domestic as well as international markets.

The substantial increase in operating revenue from the Group's telecommunication software systems, services and other products for the first six months of 2012 was mainly driven by growth in revenue derived from video and network terminal products and other products in the domestic market and from service products in the international market.

## Report of the Board of Directors

### Cost of sales and gross profit

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

Unit: RMB in millions

Product segment	For the six months ended 30 June 2012		For the six months ended 30 June 2011 (Restated)	
	Cost of sales	As a percentage of segment revenue	Cost of sales	As a percentage of segment revenue
Carriers' networks	15,020.8	70.6%	14,307.8	69.9%
Terminals	11,883.8	83.4%	8,989.7	80.2%
Telecommunication software systems, services and other products	5,236.1	73.6%	3,603.3	67.8%
<b>Total</b>	<b>32,140.7</b>	<b>75.4%</b>	<b>26,900.8</b>	<b>72.7%</b>

Unit: RMB in millions

Product segment	For the six months ended 30 June 2012		For the six months ended 30 June 2011	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Carriers' networks	6,258.8	29.4%	6,174.3	30.1%
Terminals	2,364.3	16.6%	2,225.0	19.8%
Telecommunication software systems, services and other products	1,878.1	26.4%	1,713.0	32.2%
<b>Total</b>	<b>10,501.2</b>	<b>24.6%</b>	<b>10,112.3</b>	<b>27.3%</b>

Cost of sales of the Group for the first six months of 2012 increased by 19.5% to RMB32,140.7 million, as compared to the same period last year. The Group's overall gross profit margin for the first half of the year was 24.6%, which was 2.7 percentage point lower as compared to the same period last year, reflecting mainly the decline in the gross profit margin of terminals and of telecommunication software systems, services and other products.

Cost of sales for the Group's carriers' networks segment for the first six months of 2012 amounted to RMB15,020.8 million, an increase of 5.0% as compared to the same period last year. Gross profit margin of carriers' networks was 29.4% versus 30.1% for the same period last year. The slight decrease in gross profit margin of carriers' networks mainly reflected the decline of gross profit margin of wireline switch and access products in the domestic as well as international markets.

Cost of sales for the Group's terminals segment for the first six months of 2012 amounted to RMB11,883.8 million, an increase by 32.2% as compared to the same period last year. Gross profit margin for the Group's terminals segment was 16.6%, versus 19.8% for the same period last year. The gross profit margin for the terminals segment declined in tandem with lower gross profit margins for various terminal products in the domestic market and for 3G handsets and GSM handsets in the international market.

Cost of sales for the Group's telecommunication software systems, services and other products for the first six months of 2012 amounted to RMB5,236.1 million, an increase by 45.3% compared to the same period last year. The relevant gross profit margin was 26.4%, compared to 32.2% for the same period last year. The decline in gross profit margin mainly reflected the combined effect of lower gross profit margins reported for video and network terminals products in the domestic market and for services products in the domestic and international markets.

#### **Other income and gains**

Other income and gains of the Group for the first six months of 2012 amounted to RMB1,713.5 million, representing a decline of 19.0% compared to RMB2,116.6 million for the first six months of 2011. The decline reflected mainly a smaller extent of growth in VAT allowances and rebates versus the increase in investment gains recognised following the Company's disposal of equity interests in Nationz Technologies and the reclassification of the remaining equity interests in Nationz Technologies from long-term equity investments to trading financial assets in the first six months of 2011.

#### **Research and development costs**

The Group's research and development costs for the first six months of 2012 increased by 9.8% to RMB4,025.4 million from RMB3,664.5 million for the first six months of 2011, reflecting mainly increased investments by the Company in the research and development of UMTS and LTE wireless systems, service products and core networks, etc. Research and developments costs represented 9.4% of our operating revenue, down by 0.5 percentage points as compared to 9.9% for the first half of 2011.

#### **Selling and distribution costs**

The Group's selling and distribution costs for the first six months of 2012 increased by 8.4% to RMB5,402.3 million from RMB4,983.6 million for the first half of 2011, reflecting mainly increased selling costs in the international market, but decreased by 0.8 percentage points from 13.5% to 12.7% as a percentage of operating revenue, reflecting mainly the Company's ongoing efforts to strengthen control over selling expenses.

#### **Administrative expenses**

Administrative expenses of the Group for the first six months of 2012 decreased by 8.5% to RMB1,153.3 million, as compared to RMB1,260.4 million for the first half of 2011, or decreased by 0.7 percentage points from 3.4% to 2.7% as a percentage of operating revenue, reflecting mainly the Company's stronger efforts in cost management.

#### **Other expenses**

Other expenses of the Group for the first six months of 2012 decreased by 25.4% to RMB408.6 million, as compared to RMB547.4 million for the first half of 2011. The decrease mainly reflected the increase in exchange losses in the period as a result of exchange rate volatility by a smaller extent than the decrease in losses arising from fluctuations in the fair values of equity and derivative financial instruments.

#### **Profit from operating activities**

The Group's profit from operating activities for the first six months of 2012 decreased by 30.9% to RMB1,225.1 million, as compared to RMB1,773.0 million for the first half of 2011, while the operating profit margin decreased by 1.9 percentage points as compared to the same period last year to 2.9% for the first six months of 2012, primarily as a result of lower gross profit margin for the Company's products and the decrease in other income and gains.

## Report of the Board of Directors

### Finance costs

Finance costs of the Group for the first six months of 2012 increased by 10.2% to RMB561.5 million compared to RMB509.7 million for the first half of 2011, reflecting mainly higher interest expense for bank loans.

### Tax

The Group's income tax expense for the first six months of 2012 was RMB263.6 million, which was 39.6% lower as compared to RMB436.4 million for the first half of 2011, reflecting mainly slower profit growth for certain of the Group's subsidiaries subject to higher tax rates, which resulted in a higher effective tax rate of 40.2% for the first half of 2012, as compared to 34.3% for the same period of 2011.

### Profit attributable to non-controlling interests

The Group's non-controlling interests for the first six months of 2012 amounted to RMB147.1 million, a growth of 119.2% as compared to RMB67.1 million for the first half of 2011. Non-controlling interests increased from 8.0% for the first six months of 2011 to 37.5% for the same period of 2012 as a percentage of profit before non-controlling interests, reflecting mainly higher profit generated by subsidiaries with a higher level of non-controlling interests.

### Other comprehensive income

Other comprehensive income of the Group for the first six months of 2012 increased by 31604.3% to RMB724.6 million, compared to RMB-2.3 million for the first half of 2011. The change in other comprehensive income was mainly attributable to the value appreciation of properties for self-use after valuation upon reclassification to investment properties for the period.

### Debt-equity ratio and the basis of calculation

The Group's debt-equity ratio for the first six months of 2012 was 53.4%, an increase by 6.5 percentage points as compared to 46.9% for the first half of 2011. The increase was mainly attributable to the increase in the Company's bank loans to replenish working capital.

### Cash flow data

Unit: RMB in millions

	<b>For the six months ended 30 June 2012</b>	For the six months ended 30 June 2011
Net cash outflow from operating activities	(3,781.1)	(6,220.5)
Net cash outflow from investing activities	(1,682.8)	(2,183.2)
Net cash inflow from financing activities	5,408.6	8,434.4
Net increase/(decrease) in cash and cash equivalents	(55.3)	30.7
Cash and cash equivalents at the end of the period	<b>20,543.5</b>	14,867.5



### Operating activities

The Group had a net cash outflow from operating activities of RMB3,781.1 million for the first six months of 2012 compared to RMB6,220.5 million for the first half of 2011, reflecting year-on-year increase of cash outflow for purchases of goods and services by RMB9,583.8 million mainly as a result of expanded sales scale, slight decrease of cash outflow for payments made to and on behalf of employees, increase in tax payment by RMB834.7 million, decrease of other cash payments relating to operating activities by RMB2,075.3 million, coupled with increase of cash inflow for sales and the provision of services by RMB10,876.6 million, increase of cash inflow from tax rebates by approximately RMB1,450.3 million and decrease in other cash relating to operating activities received by RMB1,941.7 million.

### Investing activities

The net cash outflow from the Group's investment activities for the first six months of 2012 was RMB1,682.8 million compared to a net cash outflow of RMB2,183.2 million for the first half of 2011, reflecting mainly the recouping of certain investment funds by Zhonghe Chunsheng Fund, which was incorporated in the Group's consolidated financial statement.

### Financing activities

The Group's net cash inflow from financing activities for the first six months of 2012 was RMB5,408.6 million, compared to RMB8,434.4 million for the first half of 2011, reflecting mainly the repayment of loans upon maturity by the Company.

### Disclosure required under the Hong Kong Listing Rules

In accordance with paragraph 40 of Appendix 16 to the Hong Kong Listing Rules, the Company confirms that, save as disclosed herein, there has been no material change in the current information regarding the Company from the information disclosed in the 2011 Annual Report of the Company in relation to those matters set out in paragraph 32 of Appendix 16.

## (IV) BUSINESS OUTLOOK AND RISK EXPOSURE FOR THE SECOND HALF OF 2012

### 1. Business outlook for the second half of 2012

Looking to the second half of 2012: regarding wireless networks, the rapid development of Mobile Internet should drive the optimisation and upgrade of 3G networks and the commercialisation of 4G networks. Regarding wireline network, thriving growth is expected for broadband markets around the world in different stages of development as providers seek to meet the service requirements of users, while policy support for and financial commitments to national broadband strategies will continue to drive global broadband construction. Regarding smart terminals, with the further penetration of Mobile Internet and the growing variety of mobile applications, fast growth is expected to sustain for smart terminals. In addition, requirements of carriers will undergo changes, as integrated solutions and long-term stable partnerships will become crucial. In this connection, the Group's products and solutions are globally competitive, and full-scale cooperation with global mainstream carriers has commenced.

In the second half of 2012, the Group will capitalise on opportunities presented by the capacity expansion and upgrade of global wireless networks, national broadband strategies, smart terminals and requirements of government and corporate networks and dedicate its efforts to product innovation and solution implementation. We will enhance execution of our strategy to focus on populous nations and mainstream carriers and expand in the government and corporate service sector. Meanwhile, efforts to strengthen cash flow management, exercise contract risk control and optimise processes and systems will continue, in a bid to improve operating efficiency and achieve balance between scale and profit.

## Report of the Board of Directors

### 2. Risk exposure

#### 1) *Foreign exchange risk*

The foreign exchange risk of the Group arose mainly from exchange differences in the conversion to RMB (the functional currency of the Group) of sales and purchases settled in currencies other than RMB. Exchange rate volatility has recently escalated under the impact of the international economic situation. With a strong emphasis on the research of exchange risk management policies, models and strategies, the Group sought to mitigate the impact of exchange rate volatility on its operations by lowering its net exposure to foreign exchange through the use of measures such as the business planning method, asset and liability method, internal exchange settlement and net exposure foreign exchange value protection, etc based on the principle of exposure management.

#### 2) *Risk associated with intellectual property rights*

The Group has always attached great importance to product technology research and development as well as the management of intellectual property rights. We maintain our investment in technology research and development each year at about 10% of our annual sales revenue. Our research and development team is supported by over 30,000 employees. While the Group has adopted stringent measures to protect its intellectual property rights, there can be no assurance that there will not be any conflicts in intellectual property rights between the Company and other telecommunications equipment manufacturers, franchisee companies and carriers which partner with the Group.

#### 3) *Interest rate risk*

As the size of the Group's loan facilities continued to grow, the total amount of interest payments owed by the Group will vary in line with any changes in the loan interest rates policies determined by the State and fluctuations in the interest rates and the profitability of the Group will be affected as a result.

#### 4) *Country risk*

Under the complicated global economic and political environment, the Group will continue to be exposed to debtors' risks, trade protection, political risks or even warfare or the succession of political regimes in countries where the Group's projects are operated. As such, a very high level of operational and risk control capabilities is required.

#### 5) *Credit risk*

The Group provides one-stop communications solutions to its customers. With the swift expansion of its business, the Group is serving a large customer base with differing credit status, and its business will inevitably be affected by the varied credit profiles of these customers. The Group has stepped up with the building of its international customer credit rating and management system to mitigate the aforesaid impact.

# Material Matters

## (I) CORPORATE GOVERNANCE

### 1. The Company's corporate governance is in compliance with relevant requirements of the CSRC

The Company has been improving its corporate governance regimes and structures, regulating corporate operations and optimising internal control structures on an ongoing basis in accordance with the requirements of the Company Law, the Securities Law, Corporate Governance Standards for Listed Companies and relevant laws and regulations of the CSRC. During the reporting period, the general meeting, Board of Directors and Supervisory Committee were operated in compliance with the law, and the corporate governance of the Company was in compliance with provisions set out in the regulatory documents on corporate governance of listed companies issued by the CSRC.

In accordance with requirements of the "Notice on the Publication of the Supplementary Guidelines for Corporate Internal Control" (《關於印發企業內部控制配套指引通知》) issued by five ministries and commissions including the Ministry of Finance of the PRC and the CSRC, the "Notice on Procuring Work relating to Trial Internal Control Rules for Shenzhen Listed Companies" (《關於做好深圳轄區上市公司內部控制規範試點有關工作的通知》) and "Notice on Further Procuring Work relating to the Implementation of Internal Control Rules for Shenzhen Listed Companies" (《關於進一步做好深圳轄區上市公司內控規範實施有關工作的通知》) issued by Shenzhen CSRC. To ensure the implementation of internal control regulation and the publication of the internal control self-assessment report and the internal control audit report consistently in accordance with the "Basic Rules for Corporate Internal Control" (《企業內部控制基本規範》) and "Corporate Internal Control Supplementary Guide" (《企業內部控制配套指引》), the Company formulated a "Report on the 2012 Internal Control Work Plan" (《關於2012年內部控制工作計劃的匯報》) in April 2012, which presented at the Twentieth Meeting of the Audit Committee of the Fifth Session of the Board of Directors and the Twenty-ninth Meeting of the Fifth Session of the Board of Directors of the Company held on 25 April 2012.

Progress of the implementation of the Company's internal control development during the first half of 2012 was as follows:

During the first quarter of 2012, the internal control development project team of the Company reviewed the implementation of the Company's internal control regulation in 2011, completed the "Report on implementation of the internal control plan in 2011" and the "2011 Report on Self Assessment of Internal Control" and worked actively with the independent audit firm to conduct internal audit and rectify any deficiencies on an ongoing basis. For details of internal control development in the first quarter, please refer to the section headed "3. Material Matters – 3.7 Progress of the implementation of internal control development during the first quarter of 2012." in the 2012 first quarterly report of the Company.

Progress of the implementation of internal control development during the second quarter of 2012 was as follows:

- 1) The Company formulated the "Report on the 2012 Internal Control Work Plan" in April 2012, which was presented at the Twentieth Meeting of the Audit Committee of the Fifth Session of the Board of Directors and the Twenty-ninth Meeting of the Fifth Session of the Board of Directors of the Company held on 25 April 2012;
- 2) In accordance with "Notice on Further Procuring Work relating to the Implementation of Internal Control Rules for Shenzhen Listed Companies" (《關於進一步做好深圳轄區上市公司內控規範實施有關工作的通知》) issued by Shenzhen CSRC on 21 May 2012 and based on the implementation of internal control development in 2011, the Company output the "Concluding Report on the Implementation of Internal Control Regulation in 2011." Meanwhile, to further optimise its internal control regime, the Company has formulated the "2012 Internal Control Development Work Plan" covering multiples aspects such as its internal control organisational structure, operating mechanism and information system, which has been filed with Shenzhen CSRC;

## Material Matters

- 3) During the reporting period, the Risk Management Committee of the Company convened 2 meetings at the company level, with a special focus on 7 major risk-related issues including foreign exchange risks of the Company and the Eurozone sovereignty debt crisis. Rectification measures, responsible parties and milestone plans were implemented to address such risks, and the internal control development project team was responsible for continued tracking of the progress of rectification;
  - 4) The internal control development project team conducted special investigations and research in relation to the Company's foreign exchange risks and financial processes, formulated a control mechanism for the management of foreign exchange risks, and optimised and renewed its financial processes.
2. **During the period from 1 January to 31 March 2012, the Company fully complied with all the principles and code provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Hong Kong Listing Rules; during the period from 1 April to 30 June 2012, the Company fully complied with the principles and code provisions of the Corporate Governance Code set out in Appendix 14 to the revised Hong Kong Listing Rules.**

### 3. Securities Transactions by Directors

The Directors of the Company confirmed that the Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model code") as set out in Appendix 10 to the Hong Kong Listing Rules. Having made due enquiries with all Directors and Supervisors of the Company, the Company was not aware of any information that reasonably suggested that the Directors and Supervisors had not complied with the requirements in the Model Code during the reporting period.

### 4. The Audit Committee

The Audit Committee of the Company has discussed with the management the accounting standards and practices adopted by the Group, and has also discussed and reviewed the report, including the financial statements of the Group for the six months ended 30 June 2012.

## (II) IMPLEMENTATION OF THE 2011 PROFIT DISTRIBUTION PLAN OF THE COMPANY

The plan of profit distribution for 2011 was considered and passed at the 2011 Annual General Meeting held on 25 May 2012 and implementation had been completed. The Company made a profit distribution RMB2 for every 10 shares (including tax) in cash based on a share capital of 3,430,952,127 shares (comprising 2,801,366,682 A shares and 629,585,445 H shares), namely total share capital of 3,440,078,020 shares (comprising 2,810,492,575 A shares and 629,585,445 H shares) as at the record date less 9,125,893 restricted shares under the share incentive scheme as at the record date. The record date was 17 July 2012 and the ex-rights/ex-dividend date was 18 July 2012, for A shares. In respect of H shares, the record date was 4 June 2012, and the dividend payment date was 18 July 2012. For details, please refer to the "Information on Payment of Final Dividend" published by the Company on 10 July 2012.

## (III) PROFIT DISTRIBUTION PROPOSAL AND PROPOSAL FOR SHARE CAPITAL INCREASE BY WAY OF TRANSFER FROM RESERVES FOR THE SIX MONTHS ENDED 30 JUNE 2012

The Company does not propose any profit distribution or share capital increase by way of transfer from reserves for the six months ended 30 June 2012.

## (IV) INFORMATION ON THE BONDS CUM WARRANTS ISSUED BY THE COMPANY

### 1. Overview of the bonds cum warrants of the Company

The Company issued 40,000,000 bonds with warrants (“Bonds cum Warrants”) amounting to RMB4 billion in total on 30 January 2008. The bonds have a nominal value of RMB100 each and a total issue amount of RMB4 billion. A coupon interest rate of 0.8% per annum applies to the issue of the Bonds cum Warrants, accruable from the issue date (30 January 2008).

Four interest payments, each with an aggregate amount of RMB32,000,000, were made in respect of the bond issue on 2 February 2009, 1 February 2010, 31 January 2011 and 30 January 2012 respectively. The maturity of the bonds is 30 January 2013.

The ultimate subscribers were issued 1.63 Warrants in respect of each Bond cum Warrant and a total of 65.20 million warrants were listed on the Shenzhen Stock Exchange on 22 February 2008. The warrants, coded “中興 ZXC1”, was valid from 22 February 2008 to 21 February 2010. The last trading day for “中興 ZXC1” was 5 February 2010 (Friday) and trading was terminated with effect from 8 February 2010 (Monday). Holders of “中興 ZXC1” were entitled to exercise their rights during the last 10 trading days of the valid period, namely on trading days during the period from 1 February 2010 to 12 February 2010, both dates inclusive.

As at the close of trading on 12 February 2010, a total of 23,348,590 “中興 ZXC1” Warrants had been exercised, accounting for 35.81% of the total number of warrants prior to the current exercise. A total of 41,851,410 “中興 ZXC1” Warrants had not been exercised and had lapsed. Following the exercise of the “中興 ZXC1” Warrants, the Company’s A share capital increased by 21,523,441 shares, raising proceeds of approximately RMB912 million. For details, please refer to the “Announcement on the Results of the Exercise of the “中興 ZXC1” Warrants and Changes in Shareholding” published by the Company on 23 February 2010.

### 2. There was no conversion, redemption or cancellation of the Bonds cum Warrants of the Company.

### 3. Top ten bond holders and their holdings

As at 30 June 2012, there were 1,652 holders of Bonds cum Warrants of the Company, the top ten of which were as follows:

No.	Name of bond holder	Number of bonds held	Bond holding rate (%)
1	New China Life Insurance Company Limited	7,991,671	19.98%
2	China Petroleum Finance Company Limited	4,084,207	10.21%
3	Taikang Life Insurance Co., Ltd.	3,655,350	9.14%
4	China Life Insurance Company Limited	3,505,536	8.76%
5	Haitong-BOC-Fortis Bank	2,818,259	7.05%
6	Sino Life Insurance Co., Ltd. — Traditional — General Insurance Products	2,422,890	6.06%
7	PICC Health Insurance Company Limited — Universal Life Insurance	1,400,000	3.50%
8	China Pacific Insurance (Group) Co., Ltd.	1,286,327	3.22%
9	China National Petroleum Corporation Corporate Annuity Plan — ICBC	1,013,387	2.53%
10	Bank of China — Changsheng Tongxin Principal Guaranteed Mixed Type Fund	964,481	2.41%

## Material Matters

4. **There was no significant change in the profitability, asset conditions and credit standing of China Development Bank, the guarantor for the Bonds cum Warrants of the Company.**
5. **Status of liabilities and credit rating changes of the Company and cash arrangements for debt repayments in future years**

As at the end of the reporting period, the Group's gearing ratio was 75.07% according to the financial statements prepared under PRC ASBEs and there was no change in the Group's credit rating. The Bonds cum Warrants of the Group have a 5-year life from the date of issue. Interest is paid annually with the interest payment date falling on the anniversary of issue of the Bonds cum Warrants. The Group will pay the interest for the current year within 5 business days following (and inclusive of) the interest payment date. All bonds will be redeemed by the Group within 5 trading days following the maturity of the current bonds in issue, at face value plus interest accruable for the final year.

6. **Other information**

On 17 March 2010, the Company entered into the "Agreement for Tripartite Supervision of Issue Proceeds" with China Development Bank, Shenzhen Branch and Guotai Junan Securities Co., Ltd. in respect of the proceeds from the issue of Bonds cum Warrants. On 22 March 2010, the Company received the "Notice of Replacement of Sponsor's Representative" from Guotai Junan Securities Co., Ltd., the Company's sponsor in respect of the issue of Bonds cum Warrants. On 23 March 2010, the "Resolution of the Company on the Replacement of Internal Funds Previously Invested in Issue Proceed Investment Projects with Proceeds from the Issue of Bonds cum Warrants" was passed at the Thirty-fourth Meeting of the Fourth Session of the Board of Directors of the Company. For details of the aforesaid matters, please refer to the "Overseas Regulatory Announcement" of the Company dated 17 and 24 March 2010. The use of proceeds from the Company's issue of Bonds cum Warrants is discussed in the section headed "12. Investments" in "(II) Management Discussion and Analysis Prepared in accordance with PRC ASBEs" in "IV. Report of the Board of Directors" of this report.

## (V) INFORMATION ON THE ISSUE OF CORPORATE BONDS BY THE COMPANY

To meet the Company's working capital requirements, further improve its debt structure and lower its finance costs, the Company was given approval to issue corporate bonds with a nominal value of not more than RMB6 billion at an issue price of RMB100 each in accordance with relevant provisions of the Company Law of the People's Republic of China, Securities Law of the People's Republic of China, Trial Measures for the Issue of Corporate Bonds and other pertinent laws, regulations and regulatory documents, following consideration and approval at the Twenty-sixth Meeting of the Fifth Session of the Board of Directors of the Company held on 8 March 2012 and the First Extraordinary Meeting of 2012 of the Company held on 11 April 2012 and approval by the CSRC by virtue of the document Zheng Jian Xu Ke [2012] No. 754. The Issue was conducted by way of a combination of online offering to public investors and offline bid placing to institutional investors.

Based on the results of offline bid placing to institutional investors conducted on 12 June 2012 and following agreement between the Company and the co-lead underwriter, the issue size was finalised at RMB6 billion, comprising an initial issue size of RMB4 billion and an additional allotment size of RMB2 billion, respectively. The coupon interest rate for the Issue was finalised at 4.20%, which would remain fixed and unchanged throughout the subsisting period of the bonds. Interests on the corporate bonds under the Issue are accruable from 13 June 2012, and the interest accrual period shall be commence on 13 June 2012 and end on 12 June 2015. Interest accrued for each year from 2013 to 2015 shall be payable on 13 June of the following year or, if such date is a statutory festival or holiday or rest day, the first business day immediately following that date. No interest is accruable on the amount of each interest payment. Interest under the Issue shall be calculated annually on the basis of simple interest instead of compound interest. Interest payment will be made once each year and the principal amount will be repaid in a one-off payment upon maturity. The last interest payment shall be made together with the principal repayment.

The Company conducted an online offering to public investors on 13 June 2012 based on the aforesaid coupon interest rate (issue code: “101696”; abbreviated name: “12中興01”). During the period from 13 June 2012 to 15 June 2012, the issue was made offline to institutional investors. The Issue was closed on 15 June 2012, with a final actual issue volume of RMB200 million for the online portion and RMB5,800 million for the offline portion, accounting for 3.33% and 96.67% of the final total issue volume, respectively.

Corporate bonds under the Issue were listed on Shenzhen Stock Exchange on 16 July 2012 under the bond code “112090” and the abbreviated bond name “12中興01”.

For details of the aforesaid matter, please refer to the Announcement of Resolutions of the Twenty-sixth Meeting of the Fifth Session of the Board of Directors, the Announcement of Resolutions of the First Extraordinary General Meeting of 2012, the Announcement of Examination and Approval by the Issue Examination Committee under China Securities Regulatory Commission of the Company’s Application for the Issue of Corporate Bonds and the Announcement of Approval by China Securities Regulatory Commission of the Issue of Corporate Bonds to the Public published by the Company on 8 March 2012, 11 April 2012, 11 May 2012 and 6 June 2012, respectively, and the Overseas Regulatory Announcements published on 10 June, 12 June, 17 June and 11 July 2012, respectively.

## **(VI) PROGRESS OF THE PHASE I SHARE INCENTIVE SCHEME OF THE COMPANY DURING THE REPORTING PERIOD**

The Phase I Share Incentive Scheme of the Company was under normal implementation during the reporting period. The impact of the Phase I Share Incentive Scheme on the Company’s financial conditions and operating results is discussed in further detail in Note VII to the financial statements prepared under PRC ASBES.

## **(VII) PASSING OF REVIEW FOR THE COMPANY’S STATUS AS A HI-HECH ENTERPRISE**

As set out in the Notice on the Collection of Certificate for National Hi-tech Enterprise of Shenzhen Passing the 2011 Review (《關於領取深圳市2011年通過複審國家高新技術企業證書的通知》) (Shen Ke Gong Mao Xin Chan Ye Zi [2012] No.4) published by the Science, Industry, Trade and Information Technology Commission of Shenzhen announced on its official website (www.szstic.gov.cn) on 3 February 2012 in accordance with the Administrative Measures for the Recognition of Hi-tech Enterprises (《高新技術企業認定管理辦法》) (Guo Ke Fa Huo [2008] No. 172) and the Guidelines for the Administration of Hi-tech Enterprise Recognition (《高新技術企業認定管理工作指引》) (Guo Ke Fa Huo [2008] No. 362), the Company has passed the review for its status as a national hi-tech enterprise, which status shall be valid for three years. In accordance with the Income Tax Law of the People’s Republic of China and national tax regulations applicable to hi-tech enterprises, the Company shall be entitled to a preferential tax policy and subject to a reduced income tax rate of 15% during the valid term of its hi-tech enterprise status.

For details of the Company’s passing of the review for its status as a national hi-tech enterprise, please refer to the “Announcement of the Passing of Review on Hi-tech Enterprise Status” of the Company dated 6 February 2012.

## **(VIII) WAIVER OF RIGHTS BY THE COMPANY**

ZTE ITS LTD. (Wuxi) (“ZTE ITS”) is a company in which the Company holds a 19% equity interest.

The other two existing shareholders have proposed to transfer their respective equity interests in ZTE ITS to their domestic natural person shareholder and domestic subsidiary, respectively, so that ZTE ITS may be converted from a Chinese foreign joint venture to a domestic company. The Company intends to waive the aforesaid first right of refusal. Following the completion of the said transfer of equity interests, the percentage of the Company’s equity interests in ZTE ITS will remain unchanged.

## Material Matters

Following the aforesaid transfer of equity interests, ZTE ITS has also proposed to introduce new shareholders in two deals to increase the share capital of ZTE ITS by RMB38.13 million (including the transfer of equity interests by an existing shareholder to a new shareholder, in respect of which the Company intends to waive its first right of refusal) and RMB13.80 million, respectively. The Company also intends to waive the aforesaid capital contribution option. Following the completion of the said share capital increase, the percentage of the Company's equity interests in ZTE ITS will be reduced from 19% to 14.4%.

The aforesaid matter was considered and approved at the Twenty-seventh Meeting of the Fifth Session of the Board of the Directors and the 2011 Annual General Meeting convened on 28 March 2012 and 25 May 2012, respectively. For details please refer to the "Announcement on the Waiver of Rights", the "Announcement of Resolutions of the Twenty-seventh Meeting of the Fifth Session of the Board of Directors" published by the Company on 28 March 2012 and the "Announcement of Resolutions of the 2011 Annual General Meeting" published on 25 May 2012.

## (IX) MATERIAL LITIGATION AND ARBITRATION

During the reporting period, the Group did not incur any material litigation or arbitration. Progress during the reporting period of immaterial litigation and arbitration proceedings incurred prior to and other litigation and arbitration proceedings incurred during the reporting period under review are as follows:

1. In February 2012, the Company and Telefonaktiebolaget LM Ericsson (publ) ("Ericsson") entered into an AGREEMENT OF DISPUTE RESOLUTION, pursuant to which the two parties agree to withdraw all patent infringement litigations against each other, including all pending patent disputes between the parties in Germany, the United Kingdom and China. For details, please refer to the section headed "Material Matters (I) Material Litigation and Arbitration" in the 2011 Annual Report of the Company.
2. A lawsuit on breach of agreement and infringement of rights was instituted against the Company and its subsidiary ZTE (USA), Inc. ("ZTE USA") by Universal Telephone Exchange, Inc. ("UTE") at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE USA had violated a confidential agreement between UTE and ZTE USA, for which UTE was seeking a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract as a result of inappropriate actions of the Company and ZTE USA, for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, the Company has appointed an attorney to defend its case.

On 23 February 2012, the Company and ZTE USA applied to the court for the rejection of UTE's suit on the grounds that there was an arbitration clause under the confidential agreement. On 1 March 2012, the attorney representing UTE concurred with the Company's application to subject the case to the arbitration clause and executed an agreement with the Company. On 1 May 2012, UTE filed an application for arbitration to the American Arbitration Association in respect of the case. The Company has submitted its defense in response thereto.

Based on the legal opinion furnished by lawyers engaged by the Company and the current progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

3. On 28 April 2011, the Company and ZTE France SASU ("ZTE France"), a wholly-owned subsidiary of the Company, received a statement of claim from the High Court of Paris, according to which a lawsuit has been filed by Huawei Technologies Co. Ltd. ("Huawei"), claiming that the data card products of the Company and ZTE France have infringed upon its patent and demanding the Company and ZTE France to discontinue such act of infringement and pay damages in the amount of EUR500,000. The Company had submitted a defense according to the required timeline to the court, which had confirmed the date of court trial, being 8 January 2013. As the Company is no longer selling the products involved



in this case, the litigation will not have any substantial impact on the local sales of the Company. In respect of the patent which is the subject of Huawei's litigation and other related patents of the same class, ZTE France has filed a lawsuit with the High Court of Paris to claim the invalidity of the patent, and the case is currently under trial.

On 9 May 2011, ZTE Deutschland GmbH ("ZTE Deutschland"), a wholly-owned subsidiary of the Company, received a provisional injunction order against ZTE Deutschland in respect of "labelled data cards" awarded by the District Court of Hamburg, Germany based on an application by Huawei. For details please refer to the "Announcement on Litigation" of the Company dated 12 May 2011. In response to the aforesaid provisional injunction order, ZTE Deutschland had filed a dissent with the District Court of Hamburg. On 1 October 2011, the Company received a ruling of the District Court of Hamburg in favor of Huawei's application for the said provisional injunction order. On 27 October 2011, ZTE Deutschland appealed to the District High Court of Hamburg and the case is currently pending trial. Such provisional injunction order will not have any impact the current business of the Company. On 27 June 2011, ZTE Deutschland received a statement of claim served by the District Court of Hamburg, Germany, pursuant to which Huawei officially filed a lawsuit of trademark infringement in respect of "labelled data cards" with the court. On 25 July 2011, ZTE Deutschland submitted a defense to the court. On 23 November 2011, the court ruled to suspend the litigation procedure for the case of trademark infringement and to arrange hearing after a judgement has been handed down in respect of the appeal against the provisional injunction order.

In May 2011 and May 2012, ZTE Deutschland and the Company respectively received statements of claim filed by Huawei to the court of Dusseldorf, Germany, claiming that ZTE Deutschland and the Company had infringed its patent. The amount in dispute for this case was estimated by Huawei at EUR1 million. On 9 January 2012, ZTE Deutschland submitted a defense to the court. In respect of the patent which is the subject of Huawei's litigation and other related patents of the same class, the Company and ZTE Deutschland filed a lawsuit with the Federal Patent Court of Germany to claim the invalidity of the patent, and the case is currently under trial.

In May 2012, ZTE Deutschland received statements of claim filed by Huawei to the court of Mannheim, Germany, claiming that ZTE Deutschland had infringed its patent. The amount in dispute for this case was estimated by Huawei at EUR1 million. The Company is actively preparing for its defense.

On 12 November, 21 November and 2 December 2011, respectively, ZTE Hungary Kft. ("ZTE Hungary"), a wholly-owned subsidiary of the Company, received statements of claim filed by Huawei with the Metropolitan Court of Hungary alleging infringement of 4 of its patents by ZTE Hungary, although no specific amount of compensation was named by Huawei in the statements of claim. ZTE Hungary submitted defenses to the court on 12 January and 1 February 2012, respectively. In respect of the 4 patents which is the subject of Huawei's litigation, ZTE Hungary filed an application to the Patent Bureau of Hungary to claim the invalidity of the patent. As at the end of the reporting period, the court ruled to suspend trial in respect of all of the 4 patents under litigation.

In addition to instituting lawsuits in other countries against the Company and its wholly-owned subsidiaries for infringements of its patent rights or trademarks, Huawei also filed a lawsuit with Shenzhen Intermediate People's Court ("Shenzhen Intermediate Court") in 2011 alleging the Company's infringement of 4 of its patent rights and demanding the Company to discontinue such infringement and pay a compensation. The Company responded actively by filing a case with Shenzhen Intermediate Court alleging Huawei's infringement of 3 patent rights of the Company, demanding Huawei to discontinue such infringement and pay a compensation. As of now, trials of the aforesaid domestic cases have commenced.

## Material Matters

4. On 3 January 2012, ZTE DO BRAZIL LTDA (“ZTE Brazil”), a wholly-owned subsidiary of the Company, received a notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil. It was alleged in the notice that ZTE Brazil had not paid the ICMS tax (a tax payable in respect of the transit of goods and related services between different states) to the tax bureau of Sao Paulo State in respect of goods imported at Espirito Santo State and transported to Sao Paulo State during the period from October 2006 to December 2008. The tax amount outstanding was approximately BRL74.70 million (equivalent to approximately RMB234 million).

On 20 January 2012, ZTE Brazil submitted an administrative defense to the level 1 administrative court under the tax bureau of Sao Paulo State, stating that ZTE Brazil had paid the ICMS tax at Espirito Santo State. Pursuant to an agreement between Sao Paulo State and Espirito Santo State in June 2009 and Order No. 56045/2010 of Sao Paulo State, which provides that the agreement shall apply to ICMS tax incurred prior to May 2009, ZTE Brazil is not required to pay ICMS to the tax bureau of Sao Paulo State. On 13 April 2012, ZTE Brazil received the judgment of the primary trial of the level 1 administrative court under the tax bureau of Sao Paulo State, which endorsed the administrative penalty imposed by the tax bureau of Sao Paulo State. On 11 June 2012, ZTE Brazil filed an appeal with the level 2 administrative court under the tax bureau of Sao Paulo State.

Based on the legal opinion furnished by lawyers engaged by the Company and the current progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions of the Group for the current period.

5. In May 2012, the Company and ZTE USA, a wholly-owned subsidiary of the Company, received a statement of claim filed by a certain U.S. company, with the International Trade Commission (ITC) and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patent rights in image processing. Defendants in the ITC case included other companies. In the ITC case, the said U.S. company demanded the issue of a limited exclusion and injunction order that would prevent the Company’s products that had infringed its patent rights in image processing from entering the United States. In the case filed with the District Court, damages for losses and payments of attorney fees were also demanded of the defendants, in addition to the plea for injunction, although no specific amount of compensation was named. The Company has appointed an external legal counsel to conduct active defense in respect of the said case. There was no substantial progress of the case at the moment.

Based on the legal opinion furnished by lawyers engaged by the Company and the current progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

**(X) DURING THE REPORTING PERIOD, THE COMPANY WAS NOT INVOLVED IN ANY MATTERS PERTAINING TO BANKRUPTCY OR REORGANISATION**

## (XI) INVESTMENT IN SECURITIES AND EQUITY INTERESTS IN OTHER LISTED COMPANIES

### 1. Investment in securities

#### (1) Securities investment by the Company at the end of the reporting period:

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Initial investment	Shares held at the end of the period (10 thousands shares)	Nominal value at the end of the period	Percentage of total investment in securities at the end of the period	Profit and loss in the reporting period
Stock	300077	Nationz Technologies	172	313	6,349	100%	(2,369)
Other investment in securities held at the end of the period			—	—	—	—	—
Profit and loss from sales of investment in securities in the reporting period			—	—	—	—	—
<b>Total</b>			172	313	6,349	100%	(2,369)
Session of the Board approving investment in securities, announcement date and number					N/A		
Session of the general meeting approving investment in securities, announcement date and number					N/A		

#### (2) Details in investment in securities

Nationz Technologies, the company with our equity investment, issued its shares under initial public offering (“IPO”) which was listed on the GEM Board of the Shenzhen Stock Exchange on 30 April 2010. On 28 April 2011, Nationz Technologies announced that a period of 12 months had lapsed since its IPO listing. The 54,400,000 shares in Nationz Technologies held by the Company (after the implementation of the 2010 profit distribution and capitalisation of capital reserve plans of Nationz Technologies) would be available for listing and circulation as from 3 May 2011. Pursuant to the “Resolution on the Proposed Disposal of Shares in Nationz Technologies, Inc.” passed at the Nineteenth Meeting of the Fifth Session of the Board of Directors of the Company held on 17 May 2011, the disposal of shares in Nationz Technologies at an appropriate timing and a reasonable price range was approved.

As at the end of the reporting period, the Company currently held 3,125,800 shares in Nationz Technologies (accounting for approximately 1.15% of the total share capital of Nationz Technologies), all of which were unrestricted circulating shares. As the Company no longer exercises significant influence over the operating activities of Nationz Technologies, the outstanding unsold shares, previously accounted for as long-term equity, have been reclassified as trading financial assets for accounting purposes and investment gains and profit/loss from fair-value changes have been measured at fair value.

## Material Matters

### 2. Equity interests in other listed companies

On 13 December 2011, the IPO application of Jufei, a company in which the Company held an indirect interest, was approved at the 78th working meeting of 2011 of the GEM Board Issue Approval Committee under CSRC, and was listed on the GEM Board of the Shenzhen Stock Exchange on 19 March 2012.

As at the end of the reporting period, the Company was the controlling shareholder of Changfei holding a 51% equity interest. Changfei held 12.87 million shares in Jufei, representing 16.09% of the total share capital of Jufei.

On 28 February 2012, the IPO application of Speed, a company in which the Company held an indirect interest, was approved at the 12th working meeting of 2012 of the GEM Board Issue Approval Committee under CSRC, and was listed on the GEM Board of the Shenzhen Stock Exchange on 8 June 2012.

As at the end of the reporting period, the Company and ZTE Capital held in aggregate 31% equity interests in Zhonghe Chunsheng Fund. Zhonghe Chunsheng Fund was a partnership reported in the consolidated financial statements of the Company. Zhonghe Chunsheng Fund held 2 million shares in Speed, accounting for 2.14% of the total share capital of Speed.

Unit: RMB in ten thousands

Stock code	Stock name	Initial investment	Percentage of equity interest in issuer	Nominal value at the end of the period	Gain/loss for the reporting period	Change in owner's equity for the reporting period	Accounting classification	Source of shares
300303	Jufei	450	16.09%	12,606	6,916	6,916	Long-term equity investment	Initial investment
300322	Speed	763	2.14%	3,346	—	1,937	Available-for-sale financial assets	Initial investment
Total		1,213	—	15,952	6,916	8,853	—	—

Note: Figures corresponding to Jufei are provided with Changfei as the accounting subject; figures corresponding to Speed are provided with Zhonghe Chunsheng Fund as the accounting subject.

### 3. Save as aforesaid, the Group did not invest in non-listed financial enterprises such as commercial banks, securities firms, insurance companies, trusts or futures companies, or conduct securities investment such as dealing in stocks of other listed companies during the reporting period.

## (XII) DERIVATIVE INVESTMENTS

Principal terms of a derivative investment contract (include but not limited to: the source of funds, parties to the contract, investment shares, investment period, product types, whether litigation is involved, whether there are disguised applications of issue proceeds and review of the investment by competent decision making authorities)

As at the end of the first half of 2012, the Company conducted derivative investment using its internal funds through either ZTE, ZTE Kangxun or ZTE HK. Contract types included fixed income derivatives and value-protection derivatives. Fixed income derivatives had an investment term of 1 year or less. Value protection derivatives included USD forwards, Euro forwards and USD interest rate swap. The investment term of USD forwards and Euro forwards was 1 year or less. The investment term of USD interest rate swaps matched the medium- and long-term debts of ZTE HK.

The derivative investment quota of 2012 was considered and passed by the twenty-seventh meeting of the Fifth session of the Board of Directors and 2011 annual general meeting of the Company. For details, please refer to the "Announcement of Resolutions of the Twenty-seventh Meeting of the Fifth Session of the Board of Directors" published by the Company on 28 March 2012 and "Announcement on the Resolutions of the 2011 Annual General Meeting" published by the Company on 25 May 2012. The derivative investments made by the Company have not been involved in litigation or disguised applications of issue proceeds.

## Material Matters

Risk analysis and control measures (including but not limited to market risks, liquidity risks, credit risks, operational risks and legal risks) in respect of derivative positions during the reporting period

Derivative investments conducted during the first half year of 2012 included fixed income derivatives and value-protection derivatives. The major risks and control measures are discussed as follows:

1. Market risks: For fixed-income derivatives, gains were recognised at maturity. Gains or losses arising from the change in fair value as a result of differences in domestic and overseas forward quotations during the investment period are accounted for as variable gains or losses, which will not affect the ultimate gains of the derivatives. Gains or losses arising from the difference between the exchange rate for settlement of value-protection derivatives investment contracts and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the value-protection derivative investments. Effective gains or losses shall be represented by the accumulative gains or losses on revaluation on the maturity date.
2. Liquidity risks: Fixed-income derivative investments are based on the foreign exchange payments for imports. The product did not effectively require the appropriation of available funds and therefore presented minimal liquidity risks. The value-protection derivatives investments of the Company were based on the Company's budget of foreign exchange income and expenditure and these investments matched the Company's actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their effect on the Company's current assets was relatively small.
3. Credit risks: The counterparties of the derivative investment trades of the Company are banks with sound credit ratings and long-standing business relationships with the Company and therefore the transactions were basically free from performance risks.
4. Other risks: Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives may result in operational risks in actual operation; Obscure terms in the trade contract may result in legal risks.
5. Control measures: The Company addressed legal risks by entering into contracts with clear and precise terms with counterparty banks and strictly enforcing its risk management system. The Company has formulated the "Risk Control and Information Disclosure System relating to Investments in Derivatives" that contains specific provisions for the risk control, review procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments will be duly controlled.

<p>Market prices or fair-value change of invested derivatives during the reporting period, including the specific methods, assumptions and parameters adopted in the analysis of the fair values of the derivatives</p>	<p>The gains from investments in derivatives during the reporting period was recognised by the Company. Total gains recognised for the reporting period amounted to RMB24.5 million, comprising losses from fair-value change of RMB7.74 million and recognized investment gains of RMB32.24 million. The calculation of the fair value was based on forward exchange rates quoted by Reuters on a balance sheet date in line with the maturity date of the product.</p>
<p>Statement on whether the accounting policy and accounting audit principles for derivatives for the reporting period were significantly different from the previous reporting period</p>	<p>There was no significant change in the Company's accounting policy and accounting audit principles for derivatives for the reporting period as compared to that of the previous reporting period.</p>
<p>Specific opinion of Independent Non-executive Directors on the Company's derivative investments and risk control</p>	<p><b>Independent Non-executive Directors' Opinion:</b>  The Company conducted fixed-income derivative investments based on due USD payables to offset exchange losses arising from the appreciation of RMB by obtaining low-risk fixed income. The Company conducted value protection derivative investments by using financial products to enhance its financial stability, so as to mitigate the impact of exchange-rate volatility on its assets, liabilities and profitability. The Company has conducted stringent internal assessment of its derivative investments made and has established corresponding regulatory mechanisms and dedicated staff. The counterparties with which the Company and its subsidiaries enter into contracts for derivative investments are organisations with sound operations and good credit standing. We are of the view that the derivative investments made by the Company and its subsidiaries are closely related to their day-to-day operational requirements and in compliance with relevant laws and regulations.</p>

## Material Matters

### Positions in derivative investments at the end of the reporting period

Unit: RMB in thousands

Type of contract <sup>Note 1</sup>	Opening balance of contract	Closing balance of contract	Gain/loss during the Reporting period <sup>note 2</sup>	Contract amount as a percentage of the Company's net assets <sup>Note 3</sup> as at the end of the period
Fixed-income derivative investment	2,705,863	1,235,785	132	5.04%
Value-protection derivative investment	2,669,974	4,851,479	24,364	19.80%
<b>Total</b>	<b>5,375,837</b>	<b>6,087,264</b>	<b>24,495</b>	<b>24.84%</b>

Note 1: Contracts are classified according to the different purposes of derivative investments and accounting treatments of such derivative investments.

Note 2: The difference of RMB1,000 between the sum and the aggregated amount of individual items was owing to the rounding to 1,000 in calculation.

Note 3: The net asset value of the Company as at the end of the reporting period is based on equity attributable to shareholders of the parent company at the end of the period.

## (XIII) ASSET TRANSACTIONS

The Group was not engaged in any material acquisition, disposal, replacement or business merger commencing or subsisting during the reporting period. Details of immaterial asset disposal disclosed by the Group are as follows:

### 1. Disposal of assets by the Company during the reporting period

Unit: RMB in ten thousands

Counterparty	Assets disposed of	Date of disposal	Transaction price	Net profit contributions to the Company by the assets from the beginning of the period to the date of disposal	Gain/loss from disposal	Whether a connected transaction	Pricing principle for asset disposal	Whether titles to asset involved have been transferred in full	Whether creditors' rights and debts have been transferred in full	Net profit contribution to the listed company by the asset disposal as a percentage of total profit	Relationship with the counterparty (as applicable to connected transactions)	Date of the first announcement disclosing the transaction
Zhongxing Development	82% interests in Zhongxing Hetai	26 June 2012	2,517.4	229.76	Gain of approximately RMB2,000	Yes	The pricing of the equity transfer was determined by reference to the audited net assets of Zhongxing Hetai as at 30 April 2012	Yes	Yes	0.0003%	Mr. Hou Weigui, Chairman of the Company, was chairman of Zhongxing Development	26 June 2012

Note: The above transaction is a connected transactions defined under the Shenzhen Stock Exchange Listing Rules and other domestic securities regulatory provisions.



**2. Statement relating to the disposal of assets**

The transfer of 82% equity interests in Zhongxing Hetai by the Company to Zhongxing Development was approved at the Thirtieth Meeting of the Fifth Session of the Board of Directors of the Company held on 26 June 2012. The pricing of the equity transfer was determined by reference to the audited net assets of Zhongxing Hetai as at 30 April 2012. As at 30 April 2012, the audited net assets of Zhongxing Hetai amounted to RMB30,697,600. On the basis of the aforesaid audited net assets, the two parties agreed that 100% equity interests in Zhongxing Hetai be valued at RMB30.70 million. Therefore, the 82% equity interests in Zhongxing Hetai was sold to Zhongxing Development by the Company at a price of RMB25,174,000.

Mr. Hou Weigui, Chairman of the Company, was also chairman of Zhongxing Development. Therefore Zhongxing Development is an associated corporation of the Company under Rule 10.1.3 (III) of the Shenzhen Stocking Exchange Listing Rules. Mr. Hou Weigui did not take part in the votes during the consideration of the resolution. For details of the asset disposal, please refer to the Overseas Regulatory Announcement published by the Company on 26 June 2012.

**3. Progress of the event since the publication of the announcement of asset disposal and the impact of the operating results for and financial conditions of the reporting period**

The equity transfer was performed in a normal manner pursuant to the Equity Transfer Agreement that had been signed and had taken effect. The equity transfer was priced by reference to the audited net assets of Zhongxing Hetai, and as such had no significant effect on the Group's profit.

**(XIV) STATEMENT ON PROPOSED OR IMPLEMENTED SHARE ACQUISITION PLAN OF THE MAJORITY SHAREHOLDER AND PARTIES ACTING IN CONCERT DURING THE REPORTING PERIOD**

Applicable  N/A

## Material Matters

### (XV) SIGNIFICANT CONNECTED TRANSACTIONS UNDER APPLICABLE LAWS AND REGULATIONS OF THE PRC

#### 1. Connected transactions in the ordinary course of business

The connected transactions disclosed in the following table represented connected transactions that reached the benchmark for public disclosure as defined under the Shenzhen Stock Exchange Listing Rules.

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	Amount	As a	Settlement	Impact on the Company's profit	Market	Reason for substantial difference between transaction prices and referential market prices
						(RMB in ten thousands)	percentage of transactions in the same classification			price (RMB in ten thousands)	
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited and subsidiaries Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited, Shenzhen Zhongxing Xinyu FPC Company Limited, Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited	Controlling shareholder of the Company and its subsidiaries	Purchase of raw materials	The purchase of various products such as cabinets, cases, distribution frames, flexible circuit boards and shelters by the Company from the connected party	Purchase of raw materials and lease of properties by the Company and its subsidiaries from connected parties at prices determined through arm's length negotiations and on the basis of normal commercial terms. Prices at which the Group made purchases from the connected parties were not higher than prices at which similar products of comparable quantity are sold to other users by the connected parties. Prices at which the Group leased properties from connected parties were not higher than market rent levels for similar properties in neighbouring area.	Cabinets and accessories: RMB1-RMB31,000 per unit; Cases and accessories: RMB1-RMB17,000 per unit depending on level of sophistication; Distribution frames and accessories: RMB2-RMB150,000 per unit depending on level of sophistication and functional features; flexible circuit boards: RMB0.3-RMB50 per unit depending on measurement, technical parameters and functional features; Shelter: RMB20,000-RMB100,000 per unit, depending on measurement, materials used and configuration.	24,472.63	1.07%	Commercial acceptance bill	N/A	N/A	N/A
Mobi Antenna Technologies (Shenzhen) Co., Ltd.	A company at which a supervisor of the Company's controlling shareholder acted as director	Purchase of raw materials	The purchase of various products such as communications antennas and radio frequency transmitter by the Company from the connected party	Prices at which the Group leased properties from connected parties were not higher than market rent levels for similar properties in neighbouring area.	Communication antenna: RMB320-RMB2,300 per piece and radio frequency Transmitter: RMB350-4,100 per unit, depending on technical parameters and functional features.	10,928.02	0.48%	Commercial acceptance bill	N/A	N/A	N/A
Huatong Technology Company Limited (華通科技有限公司)	Subsidiary of the company for which the Chairman of the Company co-acted as chairman	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party	Prices at which the Group leased properties from connected parties were not higher than market rent levels for similar properties in neighbouring area.	Intermediate-grade engineer at a price ranging from RMB330-450 per head/day; junior engineer at a price ranging from RMB230-320 per head/day	432.00	0.02%	Tele-transfer	N/A	N/A	N/A
Zhongxing Software Technology (Nanchang) Company Limited (中興軟件技術(南昌)有限公司)	A company the majority of board members of which can be controlled by another company for which the Chairman of the Company co-acted as chairman	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party	Prices at which the Group leased properties from connected parties were not higher than market rent levels for similar properties in neighbouring area.	Intermediate-grade engineer at a price ranging from RMB330-450 per head/day; junior engineer at a price ranging from RMB230-320 per head/day	918.80	0.04%	Tele-transfer	N/A	N/A	N/A
Zhongxing Development Company Limited	A company for which the Chairman of the Company co-acted as chairman	Property leasing	Lease of property located at No. 19 Huayuan East Road, Haidian District, Beijing with an intended leased area of 32,000 sq.m. by the Company from the connected party	Prices at which the Group leased properties from connected parties were not higher than market rent levels for similar properties in neighbouring area.	Monthly rent of RMB115/sq.m. (property management undertaken by ZTE and no management fees are payable)	2,032.25	4.99%	Tele-transfer	N/A	N/A	N/A
Chongqing Zhongxing Development Company Limited	Subsidiary of the Company for which the Chairman of the Company co-acted as chairman	Property leasing	Lease of property located at No. 3 Xing Guang Wu Road, North New District, Chongqing with an intended leased area of 20,000 sq.m. by the Company from the connected party	Prices at which the Group leased properties from connected parties were not higher than market rent levels for similar properties in neighbouring area.	Monthly rent of RMB45/sq.m. and RMB40/sq.m. for the office and the cafeteria respectively and monthly management fee of RMB2.5/sq.m.	446.48	1.10%	Tele-transfer	N/A	N/A	N/A
Total						39,230.18	N/A	-	-	-	-

Detailed information of substantial sales return

Nil

Necessity and continuity of connected transactions and reasons for choosing to conduct transactions with the connected party (rather than other parties in the market)

The aforesaid connected parties were able to manufacture products required by the Group and provide quality products, services and lease properties in sound conditions at competitive prices. The Company considers trustworthy and cooperative partners as very important and beneficial to its operations. All transactions between the Company and the connected parties were in compliance with pertinent national laws and regulations without any compromise to the interest of the Company and its shareholders. The Company was not dependent on the connected parties and the connected transactions would not affect the independence of the Company.

Effect of the connected transaction on the independence of the listed company

The Company's dependence on the connected party and relevant solutions (if any)

The Company was not dependent on the connected parties.

Projected total amount of continuing connected transaction during the period by type and actual performance during the reporting period

At the Second Extraordinary General Meeting of 2009 of the Company convened on 29 December 2009, it was considered and approved that the estimated purchases from Zhongxingxin and its subsidiaries, Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou by ZTE Kangxun, a subsidiary of the Company in 2012 be capped at RMB1.69 billion (before VAT); at the Twenty-third Meeting of the Fifth Session of the Board of Directors held on 27 October 2011, it was considered and approved that the estimated purchases from Mobi Antenna Technologies (Shenzhen) Co., Ltd., a connected party, by ZTE Kangxun, a subsidiary of the Company in 2012 be capped at RMB600 million (before VAT); at the Thirtieth Meeting of the Fifth Session of the Board of Directors held on 26 June 2012, it was considered and approved that the estimated purchases from Huatong Technology Company Limited (華通科技有限公司) and Zhongxing Software Technology (Nanchang) Company Limited (中興軟件技術(南昌)有限公司), both connected parties, by the Company in 2012 be capped at RMB90 million and RMB42 million, respectively; at the Third Meeting of the Fifth Session of the Board of Directors held on 27 April 2010, it was considered and approved that the annual rent payable by the Company to Zhongxing Development, a connected party, for property lease, be capped at RMB44.16 million; at the Twenty-fourth Meeting of the Fifth Session of the Board of Directors held on 13 December 2011, it was considered and approved that the annual rent payable by the Company to Chongqing Zhongxing Development Company Limited, a connected party, for property lease, be capped at RMB11.40 million. Please refer to the above table for details of the execution of the aforesaid connected transactions.

Statement on connected transaction

The Group did not conduct any purchases from 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.

Note: For details of the connected transactions, please refer to Note VI to the financial statements prepared in accordance with PRC ASBEs.

## 2. Connected transactions involving acquisitions and disposals of assets

The Group did not conduct any connected transactions involving material asset acquisitions or disposals during the reporting period. Connected transactions involving immaterial asset acquisitions or disposals disclosed by the Group are as follows:

Unit: RMB in ten thousands

Connected party	Nature of connection	Classification	Subject matter	Pricing principle	Book value of assets transferred	Assessed value of assets transferred	Fair market value	Transfer price	Reason for substantial difference between transfer price and book value/assessed value	Settlement	Effect on the operating results and financial conditions of the Company	Gain arising from the transfer of assets
Zhongxing Development	Mr. Hou Weigui, Chairman of the Company, was also chairman of Zhongxing Development	Disposal of assets	Disposal of 82% equity interests of Zhongxing Hetai to Zhongxing Development by the Company	The pricing of the equity transfer was determined by reference to the audited net assets of Zhongxing Hetai as at 30 April 2012	The audited net assets of Zhongxing Hetai as at 30 April 2012 amounted to RMB30,697,600; net assets attributable to 82% equity interests amounted to RMB25,172,000.	N/A	N/A	2,517.4	N/A	50% of the consideration was paid within 3 days following the completion of registration of the transfer with authorities for the administration of industry and commerce; the remaining 50% will be settled by 31 December 2012	The equity transfer was priced by reference to the audited net assets of Zhongxing Hetai, and as such had no significant effect on the Group's profit.	0.2

For details of the connected transaction involving acquisition and disposal of assets, please refer to the section headed (XIII) ASSET TRANSACTIONS — 2. Statement relating to the disposal of assets.”

## 3. The Company did not conduct any material connected transaction involving joint investment in third parties during the reporting period

## Material Matters

### 4. Creditors and debtors with connected parties

During the reporting period, the Company did not incur any creditors or debtors with connected parties of a non-operating nature.

Unit: RMB in ten thousands

Connected party	Nature of connection	Fund provided to connected parties						Funds provided by connected parties to the listed company						
		Opening balance	Amount incurred during the period	Amount repaid during the period	Closing balance	Interest income	Interest expense	Opening balance	Amount incurred during the period	Amount repaid during the period	Closing balance	Interest income	Interest expense	
<b>Non-operating</b>														
Nil	N/A	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Sub-total</b>		-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Operating</b>														
Shenzhen Zhongxing Xinyu FPC Company, Limited	Subsidiary of the Company's controlling shareholder	-	-	-	-	-	-	3.10	-	-	3.10	-	-	-
Shenzhen Zhongxing WXT Equipment Company Limited	Shareholder of the Company's controlling shareholder	-	-	-	-	-	-	1.20	-	-	1.20	-	-	-
Shenzhen Zhongxing Information Technology Company Limited (深圳市中興信息技術有限公司)	Investee company of shareholder of the Company's controlling shareholder	-	-	-	-	-	-	4.80	-	-	4.80	-	-	-
Zhongxing Energy (Hubei) Company Limited	Subsidiary of company at which senior management of the Company acted as director	-	-	-	-	-	-	5.30	-	-	5.30	-	-	-
Zhongxing Development Company Limited	Company at with Chairman of the Company acted chairman	-	2,517.40	-	2,517.40	-	-	21.50	-	-	21.50	-	-	-
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	the Company's controlling shareholder	-	-	-	-	-	-	236.30	-	-	236.30	-	-	-
Shenzhen Smart Electronics Company Limited	Associate of the Company	-	-	-	-	-	-	-	74.20	-	74.20	-	-	-
<b>Sub-total</b>		-	<b>2,517.40</b>	-	<b>2,517.40</b>	-	-	<b>272.20</b>	<b>74.20</b>	-	<b>346.40</b>	-	-	-
<b>Total</b>		-	<b>2,517.40</b>	-	<b>2,517.40</b>	-	-	<b>272.20</b>	<b>74.20</b>	-	<b>346.40</b>	-	-	-
Amount of funds provided by the Company to the controlling shareholder and its subsidiaries during the reporting period		-												
Including: Amount of a non-operating nature		-												
Balance of funds provided by the Company to the controlling shareholder and its subsidiaries		-												
Including: balance of amounts of a non-operating nature		-												
Reasons for incurring creditors and debtors with connected parties		The Company's disposal of 82% equity interests in Zhongxing Hetai to Zhongxing Development and operating creditors and debtors between the Group and other connected parties												
Repayment of creditors and debtors with connected parties		No repayment during the period												
Undertakings relating to creditors and debtors with connected parties		Repayment upon maturity												
Effect of creditors and debtors with connected parties on the Company's operating results and financial conditions		Nil												

Fund appropriation and progress of repayment during the reporting period

Applicable  N/A

Accountability investigation plan proposed by the Board of Directors in respect of failure of the listed company to complete settlement of non-operating fund appropriation as at the end of the reporting period

Applicable  N/A

#### 5. Other material connected transactions

At the Thirtieth Meeting of the Fifth Session of the Board of Directors held on 26 June 2012, the major connected transaction between the Company and Zhongxing Hetai was considered and passed as follows (please refer to the Overseas Regulatory Announcement published by the Company on 26 June 2012):

- 1 The aggregate amount of continuing connected transactions between the Company and Zhongxing Hetai or its subsidiaries relating to purchases for hotel services for the period from 1 July 2012 to 30 June 2013 was estimated at RMB90 million.
- 2 The aggregate amount of continuing connected transactions between the Company and Zhongxing Hetai or its subsidiaries relating to the lease of properties and related equipment for the period from 1 July 2012 to 30 June 2013 was estimated at RMB46 million.

Note: Zhongxing Development was an associated corporation of the Company under Rule 10.1.3 (III) of the Shenzhen Stock Exchange Listing Rules. In connection with the transfer of 82% equity interests in Zhongxing Hetai to Zhongxing Development by the Company, Zhongxing Hetai was an associated corporation of the Company under Rule 10.1.6 (I) of the Shenzhen Stock Exchange Listing Rules and transactions between the Company and Zhongxing Hetai were deemed connected transactions.

## Material Matters

### (XVI) MATERIAL CONTRACTS OF THE GROUP AND THEIR PERFORMANCE

1. There was no material transaction, 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. Third-party guarantees during the reporting period

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

Guaranteed party	Date and code number of announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties (Yes/No)
Djibouti Telecom S.A.	19 April 2007, 200720	RMB50 million	8 September 2006	RMB50 million	Joint liability	12 years	No	No
Benin Telecoms S.A. <sup>Note 1</sup>	23 July 2007, 200735	USD3 million	28 June 2007	USD3 million	Assurance	6.5 years	No	No
Total amount of third-party guarantee approved during the reporting period (A1)			0	Total amount of third-party guarantee actually incurred during the reporting period (A2)			0	
Total amount of third-party guarantee approved as at the end of the reporting period (A3)			RMB68,974,700	Total amount of third-party guarantee actually incurred as at the end of the reporting period (A4)			RMB68,974,700	

#### Guarantees provided by the Company on behalf of subsidiaries

Guaranteed party	Date and code number of announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties (Yes/No)
ZTE (H.K.) Limited <sup>Note 1</sup>	23 July 2007, 200735	USD3 million	28 June 2007	USD3 million	Joint liability assurance	6.6 years	No	No
Closed Joint-Stock Company CJSC TK Mobile <sup>Note 2</sup>	12 May 2009, 200917	USD70.60 million	N/A	—	Guarantee by pledge	—	No	No
PT. ZTE Indonesia <sup>Note 2</sup>	6 June 2009, 200926	USD40 million	10 June 2009	USD40 million	Joint liability assurance	From maturity to the date on which performance of obligations of PT. ZTE Indonesia under "Framework Agreement for Infrastructure Network Construction" is completed	No	No
PT. ZTE Indonesia <sup>Note 2</sup>	6 June 2009, 200926	USD5 million	17 June 2009	USD5 million	Joint liability assurance	3.6 years or from maturity to the date on which performance of obligations of PT. ZTE Indonesia under "Framework Agreement for Infrastructure Network Construction" is completed, whichever later	No	No
ZTE Telecom India Private Limited <sup>Note 3</sup>	13 November 2009, 200945	USD30 million	30 December 2009	USD30 million	Joint liability assurance	From maturity to the date on which performance of obligations of ZTE India under "Framework Agreement for Infrastructure Network Construction" is completed	No	No
ZTE Telecom India Private Limited <sup>Note 3</sup>	13 November 2009, 200945	USD3 million	31 December 2009	INR6,848,100	Joint liability assurance	"Framework Agreement for Infrastructure Network Construction" is completed	No	No
ZTE (H.K.) Limited <sup>Note 4</sup>	9 April 2011, 201112	USD900 million	8 July 2011	USD900 million	Joint liability assurance	From 8 July 2011 until the date on which a period of 60 months has lapsed	No	No
ZTE France SASU <sup>Note 5</sup>	14 December 2011, 201152	EUR10 million	N/A	—	Assurance	From maturity to the date on which performance obligations of ZTE France under "SMS Contract" and "PATES Contract" expire or the termination date (whichever is later)	No	No
Total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1)			0	Total amount of guarantee on behalf of subsidiaries actually incurred during the reporting period (B2)			0	
Total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3)			RMB6,729,974,800	Total amount of guarantee on behalf of subsidiaries actually incurred as at the end of the reporting period (B4)			RMB6,186,521,200	
<b>Total amount guaranteed by the Company (sum of the two categories aforesaid)</b>								
Total amount of guarantee approved during the reporting period (A1+B1)			0	Total amount of guarantee actually incurred during the reporting period (A2+B2)			0	
Total amount of guarantee approved as at the end of the reporting period (A3+B3) <sup>Note 1</sup>			RMB6,779,974,800	Total amount of guarantee actually incurred as at the end of the reporting period (A4+B4) <sup>Note 1</sup>			RMB6,236,521,200	
Total guaranteed amount as a percentage of net assets of the Company (A4+B4)						25.45%		
Including:								
Amounts of guarantees provided on behalf of shareholders, defacto controllers and their connected parties (C)						0		
Amount of debt guarantee provided directly or indirectly on behalf of parties with a gearing ratio exceeding 70% (D)						RMB6,186,521,200		
Amount of total guarantee exceeding 50% of net assets (E)						0		
Aggregate amount of the three guarantee amounts stated above (C+D+E)						RMB6,186,521,200		
Statement on potential joint liability involved in outstanding guarantees						N/A		
Statement on provision of guarantee to third parties in violation of stipulated procedures						N/A		

- Note 1: Guarantee provided by ZTE HK, a wholly-owned subsidiary of the Company, in the form of a standby letter of credit backed by its bank credit facility, while the bank credit facility of ZTE HK is guaranteed by the Company. In effect of the aforesaid two guarantees, ZTE is the ultimate guarantor and Benin Telecoms S.A. ("Benin Telecoms") is the ultimate party being guaranteed, for an amount of USD3 million. As the gearing ratio of Benin Telecoms was in excess of 70%, the aforesaid guarantee was subject to consideration and approval by the Board of Directors and the general meeting of the Company in accordance with requirements of relevant laws and regulations. These two guarantees have been treated as the same guarantee in the calculation of the sum of the total amount of guarantee approved as at the end of the reporting period and the total amount of guarantee actually incurred as at the end the reporting period.
- Note 2: It was respectively approved at the Twenty-fourth and Twenty-fifth Meetings of the Fourth Session of the Board of Directors that the 51% equity interests in Closed Joint-Stock Company CJSC TK Mobile ("CJSC TK Mobile") held by the Company be applied as a security against a bank loan extended to CJSC TK Mobile; a performance guarantee of US\$40 million be provided by the Company for PT. ZTE Indonesia ("ZTE Indonesia"), a wholly-owned subsidiary of the Company and application be made by the Company to the relevant bank for the issuance of a letter of performance guarantee with an amount of US\$5 million. Since the gearing ratio of both CJSC TK Mobile and ZTE Indonesia was above 70%, the aforesaid guarantees were approved at the first extraordinary general meeting of 2009. As at the date of this report, a US\$5 million guarantee for ZTE Indonesia provided by way of standby letter of credit backed by the Company's banking credit facilities has been executed and the US\$40 million performance guarantee agreement has been signed. The guarantee provided in respect of CJSC TK Mobile's bank loans by way of pledge of equity has not yet been performed as the relevant agreement has not yet been signed.
- Note 3: It was approved at the Thirty-first Meeting of the Fourth Session of the Board of Directors that a performance guarantee of not more than US\$30 million be provided by the Company for ZTE Telecom India Private Limited ("ZTE India"), a wholly-owned subsidiary of the Company and application be made by the Company to the Indian local bank for the issuance of an assurance letter in respect of contract performance to provide guarantee with an amount not exceeding US\$3 million for ZTE India. Since the gearing ratio of ZTE India was above 70%, the aforesaid guarantees were approved at the second extraordinary general meeting of 2009 in accordance with relevant laws and regulations. As at the date of this report, an agreement in respect of the US\$30 million performance guarantee provided by the Company has been signed and INR6,848,100 out of the US\$3 million guarantee provided to ZTE India by way of bank assurance letter has been drawn upon.
- Note 4: On 8 July 2011, ZTE HK, a wholly-owned subsidiary of the Company, entered into a USD900 million syndicate loan agreement with 10 international banks including BOCHK. On 8 July 2011, the Company entered into a guarantee agreement with BOCHK to provide guarantee by way of joint liability assurance for an amount of not more than USD900 million in respect of the syndicate loan for ZTE HK. The period of guarantee shall commence on the date on which the guarantee becomes effective and ends on the date which is 60 months after the date of the syndicate loan agreement. The aforesaid guarantee was considered and passed at the Seventeenth Meeting of the Fifth Session of the Board of Directors held on 8 April 2011. As the gearing ratio of ZTE HK is above 70%, the aforesaid guarantee was submitted to the 2010 Annual General Meeting of the Company held on 17 May 2011 and was considered and approved.
- Note 5: It was approved at the Twenty-fourth Meeting of the Fifth Session of the Board of Directors that a guarantee for an amount of not more than EUR10 million in respect of the performance obligations of ZTE France, a wholly-owned subsidiary of the Company under the 2010 SMS Service Execution Contract and the PATES-NG Execution Contract. As at the date of this report, the guarantee provided by the Company in respect of the performance obligations of ZTE France is undergoing registration procedures of the State Administration of Foreign Exchange and has yet to be performed.
- Note 6: Being the book exchange rate of the Company as at 30 June 2012. Guaranteed amounts denominated in Indian Rupee (INR) are translated at the exchange rate of 1 Indian Rupee to RMB0.1123. Guaranteed amounts denominated in US dollars are translated at the exchange rate of USD1 to RMB6.3249. Guaranteed amounts denominated in Euro dollars are translated at the exchange rate of EUR1 to RMB7.8710.
- Note 7: All third party guarantees of the Company shall be submitted to the Board of Directors for its review and shall require the approval of two-thirds of the members of the Board in order to be effective. If such third party guarantees are otherwise subject to review and approval at the general meeting, then they shall be tabled at the general meeting following approval by the Board of Directors in order to be effective.

## Material Matters

3. **A special statement and independent opinion on the Group's fund transfer between the Company and connected parties and Third-party guarantees of the Company has been furnished by Independent Non-Executive Directors of the Company, Ms. Qu Xiaohui, Mr. Wei Wei, Mr. Chen Naiwei, Mr. Tan Zhenhui and Mr. Timothy Alexander Steinert as follows:**
- (1) As at 30 June 2012, the transfer of funds between the Company and the controlling shareholder and other connected parties represented transactions in the ordinary course of business. Neither the controlling shareholder of the Company nor other connected parties had appropriated the Company's funds or compromised the interests of the Company and its shareholders. As required by CSRC, the Independent Non-executive Directors of the Company have reviewed the Company's transactions against the "Notice regarding Certain Issues on the Regulation of Fund Transactions Between Listed Companies and Connected Parties and Third-party Guarantees Made by Listed Companies" (Zheng Jian Fa [2003] No. 56) and are of the view that the Company has diligently implemented the relevant provisions under the Notice and have not found any matter which is in breach of the Notice.
  - (2) During the reporting period, the Company did not enter into any new third-party guarantees. As at 30 June 2012, the total amount of guarantees provided by the Company actually incurred was RMB6,236,521,200, accounting for 25.45% of the owner's equity attributable to shareholders of the listed company. For details of the third party guarantees of the Company, please refer to the sub-section headed "2. Third-party guarantees during the reporting period" in this section. The information on guarantees disclosed in the 2012 Interim Report of the Company was true and accurate, and the Company had not been engaged in any guarantees or connected-party guarantees in breach of relevant regulations.
  - (3) In accordance with the CSRC's "Notice regarding the Regulation of Third-party Guarantees Made by Listed Companies", respective Listing Rules of domestic and overseas stock exchanges and other pertinent regulations, the Company has specified the scope of authority for the Board of Directors and the general meeting in approving third-party guarantees in the Articles of Association, and has formulated the ZTE Measures for the Administration of Third-party Guarantees, in which the approval process of third-party guarantees to be made by the Company and its subsidiaries is specifically provided for to regulate third-party guarantees of the Company and effectively control risks arising therefrom.
  - (4) The Independent Non-executive Directors of the Company have reviewed the Company's transactions against the "Notice regarding the Regulation of Third-party Guarantees Made by Listed Companies" (Zheng Jian Fa [2005] No. 120), the "Notice regarding Certain Issues on the Regulation of Fund Transactions Between Listed Companies and Connected Parties and Third-party Guarantees Made by Listed Companies" (Zheng Jian Fa [2003] No. 56) and the Articles of Association, and are of the opinion that the decision making procedures for third-party guarantees of the Company during the reporting period are in compliance with the Articles of Association and relevant regulations mentioned above, and there has been no infringement on the interests of the Company and its shareholders.
4. **There was no entrusted management of the Group's cash assets of a material scale commencing or subsisting during the reporting period.**



## 5. Performance of material contracts entered into during or prior to the reporting period

During the reporting period, the Company and Qualcomm Incorporated (“Qualcomm”), a U.S. company, entered into the “Framework Agreement of Chipset Procurement for Calendar Years 2012–2015,” pursuant to which the Company proposed procurements from Qualcomm with an aggregate value of no less than USD4 billion in Calendar Years 2012–2015. During the reporting period, the Company and Broadcom Corporation (“Broadcom”), a U.S. company, entered into the “Framework Agreement of Chipset Procurement for Calendar Years 2012–2014,” pursuant to which the Company proposed procurements from Broadcom with an aggregate value of no less than USD1 billion in Calendar Years 2012–2014. For details please refer to the “Announcement of the Board of Directors” published by the Company on 20 February 2012.

Details of the performance of material contracts entered into prior to and subsisting during the reporting period and new material contracts entered into during the reporting period are set out as follows:

No.	Contents of material contracts	Date of Disclosure	Newspaper for publication	Performance
1	Framework agreement and business contracts thereunder with Ethiopian Telecommunications Corporation	30 April 2007	China Securities Journal Securities Times	Under normal progress
2	GSM Phase II project contract with Ethiopian Telecommunications Corporation	20 September 2007	Shanghai Securities News	Under normal progress
3	Network Supply Agreement and Managed Service Agreement with Cell C (PTY) LTD., a South African mobile telecommunications operator, and its controlling shareholder OGER TELECOM (SOUTH AFRICA) (PTY) Limited	27 January 2010		Under normal progress
4	Framework Agreement of Chipset Procurement for Calendar Years 2012–2015 with Qualcomm	21 February 2012		Under normal progress
5	Framework Agreement of Chipset Procurement for Calendar Years 2012–2014 with Broadcom	21 February 2012		Under normal progress

## (XVII) UNDERTAKING

1. There were no undertakings by the Company and its directors, supervisors, senior management and shareholders interested in 5% or more of the shares in the Company and de facto controllers.
2. Company statement on meeting original profit forecasts for assets or projects and the reasons therefor, where such profit forecasts have been made and the reporting period falls within the profit forecast period

Applicable  N/A

## Material Matters

### (XVIII) ITEMS OF OTHER COMPREHENSIVE INCOME

Unit: RMB in ten thousands

Item	Reporting	
	period	Previous period
1. Gains/losses arising from available-for-sale financial assets	1,937	—
Less: Income tax effect of available-for-sale financial assets	—	—
Net amount charged to other comprehensive income in the previous period and transferred to profit and loss in the current period	—	—
Sub-total	1,937	—
2. Share of other comprehensive income of investees under the equity method	—	—
Less: Income tax effect of share of other comprehensive income of investees under the equity method	—	—
Net amount charged to other comprehensive income in the previous period and transferred to profit and loss in the current period	—	—
Sub-total	—	—
3. Gains/losses arising from cash flow hedging instruments	(934)	—
Less: income tax effect of cash flow hedging instruments	—	—
Net amount charged to other comprehensive income in the previous period and transferred to profit and loss in the current period	—	—
Adjustment of initially recognised amount upon reclassification as hedges	—	—
Sub-total	(934)	—
4. Difference arising from translation of foreign currencies	(21,810)	(230)
Less: net amount of disposal of overseas operations transferred to profit and loss for the current period	—	—
Sub-total	(21,810)	(230)
5. Others	93,267	—
Less: Income tax effect arising from other income charged to other comprehensive income	—	—
Net amount charged to other comprehensive income in the previous period and transferred to profit and loss in the current period	—	—
Sub-total	93,267	—
<b>Total</b>	<b>72,460</b>	<b>(230)</b>

**(XIX) RECEPTION OF INVESTORS AND ANALYSTS, COMMUNICATIONS AND PRESS INTERVIEWS OF THE COMPANY DURING THE REPORTING PERIOD**

<b>Nature</b>	<b>Location</b>	<b>Time</b>	<b>Mode</b>	<b>Audience received</b>	<b>Key contents of discussion</b>	<b>Materials furnished</b>
Presentation of the Company	Shenzhen	March 2012	Teleconference	Analysts and investors	2011 Annual Report	Published announcements and regular reports
	Hong Kong	March 2012	2011 results presentation	Analysts and investors	2011 Annual Report	Published announcements and regular reports
	Shenzhen	April 2012	Analysts' meeting	Analysts	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	April 2012	Teleconference	Analysts and investors	First Quarterly Report 2012	Published announcements and regular reports
External meetings	Hong Kong	January 2012	Citibank investors' meeting	Customers of Citibank	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	May 2012	CICC investor's meeting	Customers of CICC	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	May 2012	Nomura Securities investors' meeting	Customers of Nomura Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	May 2012	Orient Securities investors' meeting	Customers of Orient Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Enshi	June 2012	Changjiang Securities investors' meeting	Customers of Changjiang Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	June 2012	China Merchants Securities investors' meeting	Customers of China Merchants Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	June 2012	BOCI investors' meeting	Customers of BOCI	Day-to-day operations of the Company	Published announcements and regular reports
<b>Overseas Investors</b>						
Company visits by investors	Company	January to June 2012	Verbal	Merrill Lynch Securities, China Alpha Investment, Tokai Tokyo Securities (Asia) Limited, GSI, Neptune Investment Management, KGI, F & C Group, Baillie Gifford & Co Limited, Goldman Sachs, Shenyin Wanguo, BOCI, Havenport, Nomura Securities, Collins Stewart LLC, Sumitomo Mitsui Asset Management, UOB, ING, Core Pacific, Display Bank, Schroder Investment Management (Singapore) Ltd., Lansdowne Partners Limited, Capital, Mitsubishi UFJ Securities, CGII, CCB International, Kynikos Associates, Woori Investment, Pengana Capital Limited, Comgest Asia, Everbright International, Oaktree Capital, De L Echiquier, Mondrian Investment Partners, Teng Yue Partners, Korea Investment & Securities, Deutsche Bank, CN Investment Division, Smith & Williamson, UBS Asset Management, Absolute Asia Asset Management, DBS, SAC, APS, CLSA, Daiwa Securities, Mizuho Asset Management, Putnam	Day-to-day operations of the Company	Published announcements and regular reports
<b>Domestic Investors</b>						
	Company	January to June 2012	Verbal	Hua Chuang Securities, Guotai Junan Group Research, China Merchants Securities, Everbright Securities, E Fund, Great Wall Securities, China AMC, Bosera Fund, Xiangcai Securities, Southern Fund, Sinolink Securities, First Capital, CITIC Securities, Haitong Securities, Guangfa Fund, Goldstate Securities, Shang Cheng Asset, Rongtong Fund, Zhongshan Securities, Wise Win, Taiping Asset, Prime Capital, China Securities, PICC, China Life Insurance, Changjiang Securities	Day-to-day operations of the Company	Published announcements and regular reports

**(XX) THERE WAS NO REPLACEMENT OR DISMISSAL OF ACCOUNTANT FIRMS BY THE COMPANY DURING THE REPORTING PERIOD.**

## Material Matters

**(XXI) DURING THE REPORTING PERIOD, NONE OF THE COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT OR SHAREHOLDERS WAS SUBJECT TO INVESTIGATION BY COMPETENT AUTHORITIES, ENFORCEMENT BY JUDICIARY OR DISCIPLINARY AUTHORITIES, DETAINMENT BY JUDICIAL AUTHORITIES OR PROSECUTION FOR CRIMINAL CHARGES, EXAMINATION BY CSRC, ADMINISTRATIVE PENALTY BY CSRC, PROHIBITION FROM PARTICIPATION IN THE SECURITIES MARKET, PUBLIC CENSURE, OPINION OF DEEMED INAPPROPRIATENESS, PUNISHMENT BY OTHER ADMINISTRATIVE AUTHORITIES AND PUBLIC REPRIMAND BY THE SHENZHEN STOCK EXCHANGE.**

## **(XXII) INDEX OF INFORMATION DISCLOSURE OF THE COMPANY DURING THE REPORTING PERIOD**

<b>Date</b>	<b>Newspaper</b>	<b>Page No.</b>	<b>Announcement</b>
17 January 2012	China Securities Journal	B013	Announcement of Interest Payment of “中興債1” of the Company
	Shanghai Securities News	B17	
	Securities Times	D21	
20 January 2012	China Securities Journal	A19	Clarification Announcement
	Shanghai Securities News	B184	
	Securities Times	C32	
7 February 2012	China Securities Journal	B004	Announcement of the Passing of Review on Hi-tech Enterprise Status
	Shanghai Securities News	B8	
	Securities Times	D4	
10 February 2012	China Securities Journal	B008	Announcement of Resignation of Non-executive Director
	Shanghai Securities News	B22	
	Securities Times	D20	
10 February 2012	China Securities Journal	B008	Announcement Regarding the Election of Directors
	Shanghai Securities News	B22	
	Securities Times	D20	
15 February 2012	China Securities Journal	B005	Announcement on Progress of Material Litigation
	Shanghai Securities News	B9	
	Securities Times	D20	
21 February 2012	China Securities Journal	B004	Announcement of the Board of Directors
	Shanghai Securities News	B16	
	Securities Times	D23	
23 February 2012	China Securities Journal	B008	Announcement of Resolutions of the Twenty-fifth Meeting of the Fifth Session of the Board of Directors
	Shanghai Securities News	B17	
	Securities Times	D20	
23 February 2012	China Securities Journal	B008	Notice of the First Extraordinary General Meeting of 2012
	Shanghai Securities News	B17	
	Securities Times	D20	
9 March 2012	China Securities Journal	B013	Announcement of Resolutions of the Twenty-sixth Meeting of the Fifth Session of the Board of Directors
	Shanghai Securities News	B27	
	Securities Times	D25	
9 March 2012	China Securities Journal	B013	Announcement of Resolutions of the Fourteenth Meeting of the Fifth Session of the Supervisory Committee
	Shanghai Securities News	B27	
	Securities Times	D25	
9 March 2012	China Securities Journal	B013	Supplementary Notice of the First Extraordinary General Meeting of 2012
	Shanghai Securities News	B27	
	Securities Times	D25	

<b>Date</b>	<b>Newspaper</b>	<b>Page No.</b>	<b>Announcement</b>
23 March 2012	China Securities Journal Shanghai Securities News Securities Times	B57 A28 D24	Indicative Announcement on the convening of the First Extraordinary General Meeting of 2012
29 March 2012	China Securities Journal Shanghai Securities News Securities Times	B274 B22 D42	Announcement of Resolutions of the Twenty-seventh Meeting of the Fifth Session of the Board of Directors
29 March 2012	China Securities Journal Shanghai Securities News Securities Times	B274 B22 D42	2011 Annual Report Summary
29 March 2012	China Securities Journal Shanghai Securities News Securities Times	B275 B23 D43	Announcement On the Application for Derivative Investment Limits of 2012
29 March 2012	China Securities Journal Shanghai Securities News Securities Times	B275 B23 D43	Announcement on the Waiver of Rights
29 March 2012	China Securities Journal Shanghai Securities News Securities Times	B275 B23 D43	Announcement of Resolutions of the Fifteenth Meeting of the Fifth Session of the Supervisory Committee
29 March 2012	China Securities Journal Shanghai Securities News Securities Times	B275 B23 D43	Notice of the 2011 Annual General Meeting
12 April 2012	China Securities Journal Shanghai Securities News Securities Times	B004 B33 D4	Announcement of Resolutions of the First Extraordinary General Meeting of 2012
12 April 2012	China Securities Journal Shanghai Securities News Securities Times	B004 B33 D4	Announcement of Resolutions of the Twenty-eighth Meeting of the Fifth Session of the Board of Directors
26 April 2012	China Securities Journal Shanghai Securities News Securities Times	B063 B24 D41	Announcement of Resolutions of the Twenty-ninth Meeting of the Fifth Session of the Board of Directors
26 April 2012	China Securities Journal Shanghai Securities News Securities Times	B063 B24 D41	Text of the 2012 First Quarterly Report
5 May 2012	China Securities Journal Shanghai Securities News Securities Times	B008 24 B4	Indicative Announcement on the Convening of the 2011 Annual General Meeting
12 May 2012	China Securities Journal Shanghai Securities News Securities Times	B012 19 B24	Announcement of Examination and Approval by the Issue Examination Committee under China Securities Regulatory Commission of the Company's Application for the Issue of Corporate Bonds
26 May 2012	China Securities Journal Shanghai Securities News Securities Times	B009 32 B17	Announcement of Resolutions of the 2011 Annual General Meeting
7 June 2012	China Securities Journal Shanghai Securities News Securities Times	B004 B14 D13	Announcement of Approval by China Securities Regulatory Commission of the Issue of Corporate Bonds to the Public

## Material Matters

<b>Date</b>	<b>Newspaper</b>	<b>Page No.</b>	<b>Announcement</b>
11 June 2012	China Securities Journal Shanghai Securities News Securities Times	A37/A38/A39 16/17/18 C13/C14/C15	Announcement of the Issue of Corporate Bonds (Tranche 1) 2012
13 June 2012	China Securities Journal Shanghai Securities News Securities Times	A24 B5 D36	Announcement of the Coupon Interest Rate of Corporate Bonds (Tranche 1) 2012
18 June 2012	China Securities Journal Shanghai Securities News Securities Times	A16 11 D12	Announcement of the Results of the Issue of Corporate Bonds (Tranche 1) 2012
27 June 2012	China Securities Journal Shanghai Securities News Securities Times	A48 B25 D17	Announcement of Resolutions of the Thirtieth Meeting of the Fifth Session of the Board of Directors
27 June 2012	China Securities Journal Shanghai Securities News Securities Times	A48 B25 D17	Announcement of Resolutions of the Seventeenth Meeting of the Fifth Session of the Supervisory Committee
27 June 2012	China Securities Journal Shanghai Securities News Securities Times	A48 B25 D17	Announcement of Connected Transaction
27 June 2012	China Securities Journal Shanghai Securities News Securities Times	A48 B25 D17	Announcement of Projected Continuing Connected Transaction under the Listing Rules of the Shenzhen Stock Exchange

Note: The above announcements were simultaneously published in domestic newspapers and on <http://www.cninfo.com.cn>.

# Consolidated Balance Sheet

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

	Note V	30 June 2012 (unaudited)	31 December 2011 (audited)
<b>Assets</b>			
<b>Current assets</b>			
Cash	1	21,687,036	21,471,967
Trading financial assets	2	91,507	95,618
Bills receivable	3	3,987,639	3,223,529
Trade receivables	4	23,800,944	23,873,425
Factored trade receivables	4	2,176,989	3,623,096
Prepayments	5	561,484	494,200
Other receivables	6	1,795,822	2,118,700
Inventories	7	13,055,460	14,988,379
Amount due from customers for contract works	8	16,635,456	14,588,455
<b>Total current assets</b>		<b>83,792,337</b>	<b>84,477,369</b>
<b>Non-current assets</b>			
Available-for-sale financial assets	9	944,905	819,972
Long-term trade receivables	10	1,214,620	864,274
Factored long-term trade receivables	10	4,336,995	4,156,083
Long-term equity investments	12	572,896	514,091
Investment properties	13	1,595,977	—
Fixed assets	14	7,328,333	7,003,824
Construction in progress	15	857,241	1,580,462
Intangible assets	16	1,226,488	1,194,946
Deferred development costs	16	2,149,934	1,925,610
Deferred tax assets	17	1,188,745	1,128,836
Long-term deferred assets		66,366	61,741
Other non-current assets	31	1,770,188	1,640,906
<b>Total non-current assets</b>		<b>23,252,688</b>	<b>20,890,745</b>
<b>TOTAL ASSETS</b>		<b>107,045,025</b>	<b>105,368,114</b>

# Consolidated Balance Sheet (continued)

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

	Note V	30 June 2012 (unaudited)	31 December 2011 (audited)
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Short-term loans	19	12,890,954	11,183,349
Trading financial liabilities	2	32,218	5,305
Bank advances on factored trade receivables	4	2,176,989	3,789,731
Bills payable	20	11,235,766	11,149,367
Trade payables	21	16,121,642	21,542,885
Amount due to customers for contract works	8	3,003,622	3,068,804
Advances from customers	22	2,691,130	2,458,428
Salary and welfare payables	23	2,091,578	2,409,032
Taxes payable	24	(1,015,744)	(990,041)
Dividends payable	25	860,627	170,046
Other payables	26	6,993,728	7,526,477
Deferred income		252,225	74,986
Provisions	27	398,356	393,343
Long-term liabilities due within one year	28	4,434,935	693,099
<b>Total current liabilities</b>		<b>62,168,026</b>	<b>63,474,811</b>
<b>Non-current liabilities</b>			
Long-term loans	29	7,248,628	6,940,702
Bank advances on factored long-term trade receivables	10	4,336,995	4,156,083
Bonds payable	30	5,976,196	3,884,198
Deferred tax liabilities	17	22,040	—
Other non-current liabilities	31	607,143	623,545
<b>Total non-current liabilities</b>		<b>18,191,002</b>	<b>15,604,528</b>
<b>Total liabilities</b>		<b>80,359,028</b>	<b>79,079,339</b>
<b>Shareholders' equity</b>			
Share capital	32	3,440,078	3,440,078
Capital reserves	33	9,472,718	8,539,807
Restricted shares subject to lock-up	34	(40,537)	(40,537)
Surplus reserves	35	1,587,430	1,587,891
Retained profits	36	10,790,859	10,545,984
Proposed final dividends		—	686,190
Foreign currency translation differences		(746,963)	(527,696)
Total equity attributable to equity holders of the parent		24,503,585	24,231,717
Non-controlling interests		2,182,412	2,057,058
<b>Total shareholders' equity</b>		<b>26,685,997</b>	<b>26,288,775</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>107,045,025</b>	<b>105,368,114</b>

The financial statements set out on page 69 to 192 have been signed by:

Legal representative:  
Hou Weigui

Chief Financial Officer:  
Wei Zaisheng

Head of Finance Division:  
Shi Chunmao



# Consolidated Income Statement

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

	Note V	Six months ended 30 June 2012 (unaudited)	Six months ended 30 June 2011 (unaudited) (Restated)
<b>Operating revenue</b>	37	<b>42,641,898</b>	37,013,111
Less: Operating costs	37	<b>31,277,990</b>	26,243,731
Taxes and surcharges	39	<b>608,119</b>	572,917
Selling and distribution costs		<b>5,323,563</b>	4,913,396
Administrative expenses		<b>1,038,026</b>	1,136,385
Research and development costs		<b>4,025,433</b>	3,664,474
Finance expenses	42	<b>831,063</b>	440,485
Impairment losses	43	<b>460,490</b>	286,717
Add: Gains/(Losses) from changes in fair values	40	<b>(31,439)</b>	(236,551)
Investment income	41	<b>90,878</b>	1,165,289
Including: Share of profits and losses of associates and jointly-controlled entities	41	<b>(7,922)</b>	9,407
<b>Operating profit</b>		<b>(863,347)</b>	683,744
Add: Non-operating income	44	<b>1,546,718</b>	629,119
Less: Non-operating expenses	44	<b>27,739</b>	40,114
Including: Loss on disposal of non-current assets		<b>12,068</b>	5,087
<b>Total profit</b>		<b>655,632</b>	1,272,749
Less: Income tax	45	<b>263,624</b>	436,419
<b>Net profit</b>		<b>392,008</b>	836,330
Net profit attributable to owners of the parent		<b>244,875</b>	769,271
Non-controlling interests		<b>147,133</b>	67,059
<b>Earnings per share</b>	46		
Basic earnings per share		<b>RMB0.07</b>	RMB0.23
Diluted earnings per share		<b>RMB0.07</b>	RMB0.22
Other comprehensive income	47	<b>724,599</b>	(2,303)
<b>Total Comprehensive income</b>		<b>1,116,607</b>	834,027
Including: Total comprehensive income attributable to owners of the parent		<b>954,853</b>	764,607
Total comprehensive income attributable to non-controlling interests		<b>161,754</b>	69,420

# Consolidated Statement of Changes in Equity

(Prepared under PRC ASBES)  
 Currency: RMB'000  
 (English translation for reference only)

For the six months ended 30 June 2012 (unaudited)										
Equity attributable to equity holders of the parent										
	Share capital	Capital reserve	Restricted Shares subject to lock-up	Surplus reserve	Retained profits	Proposed Final dividends	Foreign currency translation differences	Sub-total	Non-controlling interests	Total shareholders' equity
I. Current period's opening balance	3,440,078	8,539,807	(40,537)	1,587,891	10,545,984	686,190	(527,696)	24,231,717	2,057,058	26,288,775
II. Changes during the period										
(1) Net profit	—	—	—	—	244,875	—	—	244,875	147,133	392,008
(2) Other comprehensive income	—	929,245	—	—	—	—	(219,267)	709,978	14,621	724,599
Total comprehensive income	—	929,245	—	—	244,875	—	(219,267)	954,853	161,754	1,116,607
(3) Shareholder's capital injection and capital reduction										
1. Capital injection from shareholders	—	—	—	—	—	—	—	—	—	—
2. Equity settled share expenses charged to equity	—	3,666	—	—	—	—	—	3,666	—	3,666
3. Disposal of subsidiaries	—	—	—	(461)	—	—	—	(461)	1,392	931
(4) Profit appropriation										
1. Appropriation to surplus reserves	—	—	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	(686,190)	—	(686,190)	(37,792)	(723,982)
3. Proposed final dividends	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—
(5) Transfer of shareholders' equity										
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—
(6) Others										
1. Effect of changes of other equity holders' interest in invested entities by equity method	—	—	—	—	—	—	—	—	—	—
III. Current period's closing balance	3,440,078	9,472,718	(40,537)	1,587,430	10,790,859	—	(746,963)	24,503,585	2,182,412	26,685,997

# Consolidated Statement of Changes in Equity (continued)

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

		For the six months ended 30 June 2011 (unaudited)									
		Equity attributable to equity holders of the parent									
		Share capital	Capital reserve	Restricted Shares subject to lock-up	Surplus reserve	Retained profits	Proposed Final dividends	Foreign currency translation differences	Sub-total	Non-controlling interests	Total shareholders' equity
I.	Current period's opening balance	2,866,732	9,070,975	(276,266)	1,537,512	9,222,387	841,297	(168,765)	23,093,872	1,868,126	24,961,998
II.	Changes during the period										
	(1) Net profit	—	—	—	—	769,271	—	—	769,271	67,059	836,330
	(2) Other comprehensive income	—	—	—	—	—	—	(4,664)	(4,664)	2,361	(2,303)
	Total comprehensive income	—	—	—	—	769,271	—	(4,664)	764,607	69,420	834,027
	(3) Shareholder's capital injection and capital reduction										
	1. Capital injection from shareholders	—	—	—	—	—	—	—	—	6,696	6,696
	2. Equity settled share expenses charged to equity	—	34,670	—	—	—	—	—	34,670	—	34,670
	3. Others	—	—	—	—	—	—	—	—	316	316
	(4) Profit appropriation										
	1. Appropriation to surplus reserves	—	—	—	—	—	—	—	—	—	—
	2. Distribution to shareholders	—	—	—	—	—	(841,297)	—	(841,297)	(218,677)	(1,059,974)
	3. Proposed final dividends	—	—	—	—	—	—	—	—	—	—
	4. Others	—	—	—	—	—	—	—	—	—	—
	(5) Transfer of shareholders' equity										
	1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—	—
	2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—	—	—
	3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—
	4. Others	—	—	—	—	—	—	—	—	—	—
	(6) Others										
	1. Effect of changes of other equity holders' interest in invested entities by equity method	—	—	—	—	—	—	—	—	—	—
III.	Current period's closing balance	2,866,732	9,105,645	(276,266)	1,537,512	9,991,658	—	(173,429)	23,051,852	1,725,881	24,777,733

# Consolidated Cash Flow Statement

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

	Note V	Six months ended 30 June 2012 (unaudited)	Six months ended 30 June 2011 (unaudited)
<b>I. Cash flows from operating activities</b>			
Cash received from sale of goods or rendering of services		42,243,025	31,366,465
Refunds of taxes		4,122,121	2,671,771
Cash received relating to other operating activities	48	412,133	2,353,862
<b>Sub-total of cash inflows</b>		<b>46,777,279</b>	<b>36,392,098</b>
Cash paid for goods and services		36,332,231	26,748,405
Cash paid to and on behalf of employees		6,411,292	6,901,016
Cash paid for all types of taxes		3,529,884	2,695,191
Cash paid relating to other operating activities	48	4,143,544	6,218,839
<b>Sub-total of cash outflows</b>		<b>50,416,951</b>	<b>42,563,451</b>
<b>Net cash flows from operating activities</b>	49	<b>(3,639,672)</b>	<b>(6,171,353)</b>
<b>II. Cash flows from investing activities</b>			
Cash received from sale of investments		865,446	493,155
Cash received from return on investments		31,854	114,601
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		19,335	25,298
<b>Sub-total of cash inflows</b>		<b>916,635</b>	<b>633,054</b>
Cash paid to acquisition of fixed assets, intangible assets and other long term assets		1,307,472	1,520,120
Cash paid for acquisition of investments		962,734	916,522
<b>Sub-total of cash outflows</b>		<b>2,270,206</b>	<b>2,436,642</b>
<b>Net cash flows from investing activities</b>		<b>(1,353,571)</b>	<b>(1,803,588)</b>
<b>III. Cash flows from financing activities</b>			
Cash received from capital injections		—	6,696
Including: Capital injection into subsidiaries by non-controlling shareholders		—	6,696
Cash received from borrowings		17,485,994	13,905,120
<b>Sub-total of cash inflows</b>		<b>17,485,994</b>	<b>13,911,816</b>
Cash repayments of borrowings		12,077,415	5,477,440
Cash payments for distribution of dividends, profits and for interest expenses		470,649	428,740
Including: Distribution of dividends and profits by subsidiaries to non-controlling shareholders		—	—
<b>Sub-total of cash outflows</b>		<b>12,548,064</b>	<b>5,906,180</b>
<b>Net cash flows from financing activities</b>		<b>4,937,930</b>	<b>8,005,636</b>
<b>IV. Effect of changes in foreign exchange rate on cash</b>		<b>(63,316)</b>	<b>(68,264)</b>
<b>V. Net increase in cash and cash equivalents</b>		<b>(118,629)</b>	<b>(37,569)</b>
Add: cash and cash equivalents at the beginning of the period		20,662,089	14,905,099
<b>VI. Net balance of cash and cash equivalents</b>	49	<b>20,543,460</b>	<b>14,867,530</b>

# Balance Sheet

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

	Note XII	30 June 2012 (unaudited)	31 December 2011 (audited)
<b>Assets</b>			
<b>Current assets</b>			
Cash		14,345,256	13,575,178
Trading financial assets		79,024	87,180
Bills receivable		3,629,188	2,992,133
Trade receivables	1	33,529,629	33,136,024
Factored trade receivables	1	2,170,765	3,306,558
Prepayments		17,778	22,969
Dividends receivable		5,432,920	3,696,751
Other receivables	2	5,549,238	3,477,706
Inventories		6,288,371	8,634,564
Amount due from customers for contract works		11,800,570	12,171,992
<b>Total current assets</b>		<b>82,842,739</b>	<b>81,101,055</b>
<b>Non-current assets</b>			
Available-for-sale financial assets	3	212,448	212,448
Long-term trade receivables	4	3,552,786	3,633,751
Factored long-term trade receivables	4	4,336,321	4,059,772
Long-term equity investments	5	5,046,333	4,750,471
Investment properties		1,326,789	—
Fixed assets		5,229,334	4,791,141
Construction in progress		52,730	739,549
Intangible assets		690,983	715,716
Deferred development costs		561,262	499,988
Deferred tax assets		597,289	622,619
Long-term deferred assets		29,993	30,096
Other non-current assets		1,467,374	1,489,944
<b>Total non-current assets</b>		<b>23,103,642</b>	<b>21,545,495</b>
<b>TOTAL ASSETS</b>		<b>105,946,381</b>	<b>102,646,550</b>

# Balance Sheet (continued)

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

	Note XII	30 June 2012 (unaudited)	31 December 2011 (audited)
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Short-term loans		9,023,635	6,536,028
Trading financial liabilities		13,528	—
Bank advances on factored trade receivables	1	2,170,765	3,473,193
Bills payable		13,326,824	11,904,593
Trade payables		30,285,396	31,997,323
Amount due to customers for contract works		2,318,968	2,401,582
Advances from customers		1,913,180	1,608,213
Salary and welfare payables		480,333	720,866
Taxes payables		(1,219,124)	(1,628,377)
Dividends payable		686,318	128
Other payables		16,719,696	20,133,672
Deferred income		74,204	29,483
Provisions		266,492	241,134
Long-term loans due within one year		4,434,935	693,099
<b>Total current liabilities</b>		<b>80,495,150</b>	<b>78,110,937</b>
<b>Non-current liabilities</b>			
Long-term loans		632,490	1,130,090
Bank advances on factored long-term trade receivables	4	4,336,321	4,059,772
Bonds payable		5,976,196	3,884,198
Other non-current liabilities		596,164	622,297
<b>Total non-current liabilities</b>		<b>11,541,171</b>	<b>9,696,357</b>
<b>Total liabilities</b>		<b>92,036,321</b>	<b>87,807,294</b>
<b>Shareholders' equity</b>			
Share capital		3,440,078	3,440,078
Capital reserves		9,461,007	8,534,677
Restricted shares subject to lock-up		(40,537)	(40,537)
Surplus reserves		925,674	925,674
Retained profits		140,635	1,309,523
Proposed final dividends		—	686,190
Foreign currency translation differences		(16,797)	(16,349)
Total equity attributable to equity holders of the parent		13,910,060	14,839,256
Non-controlling interests		—	—
<b>Total shareholders' equity</b>		<b>13,910,060</b>	<b>14,839,256</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>105,946,381</b>	<b>102,646,550</b>

# Income Statement

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

	Note XII	Six months ended 30 June 2012 (unaudited)	Six months ended 30 June 2011 (unaudited)
<b>Operating revenue</b>	6	<b>36,570,493</b>	30,966,602
Less: Operating costs	6	<b>33,554,892</b>	27,606,825
Taxes and surcharges		<b>281,902</b>	115,754
Selling and distribution costs		<b>3,523,693</b>	3,126,795
Administrative expenses		<b>643,165</b>	639,113
Research and development costs		<b>1,014,836</b>	1,044,595
Finance expenses		<b>453,462</b>	601,960
Impairment losses		<b>324,196</b>	218,236
Add: Gains/(Losses) from changes in fair values		<b>(21,685)</b>	(181,464)
Investment income	7	<b>1,732,161</b>	2,814,865
Including: Share of profits and losses of associates and jointly-controlled entities		<b>(20,693)</b>	(1,942)
<b>Operating profit</b>		<b>(1,515,177)</b>	246,725
Add: Non-operating income		<b>328,349</b>	143,998
Less: Non-operating expenses		<b>12,481</b>	30,785
Including: Losses on disposal of non-current assets		<b>8,411</b>	1,588
<b>Total profit</b>		<b>(1,199,309)</b>	359,938
Less: Income tax		<b>(30,421)</b>	24,178
<b>Net profit</b>		<b>(1,168,888)</b>	335,760
<b>Other comprehensive income</b>		<b>922,216</b>	(209)
<b>Total comprehensive income</b>		<b>(246,672)</b>	335,551

# Statement of Changes in Equity

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

	For the six months ended 30 June 2012 (unaudited)							Total shareholders' equity
	Share capital	Capital reserve	Restricted shares subject to lock-up	Surplus reserve	Retained profits	Proposed final dividends	Foreign currency translation differences	
I. Current period's opening balance	3,440,078	8,534,677	(40,537)	925,674	1,309,523	686,190	(16,349)	14,839,256
II. Changes during the period								
(1) Net profit	—	—	—	—	(1,168,888)	—	—	(1,168,888)
(2) Other comprehensive income	—	922,664	—	—	—	—	(448)	922,216
Total comprehensive income	—	922,664	—	—	(1,168,888)	—	(448)	(246,672)
(3) Shareholder's capital injection and capital reduction								
1. Capital injection from shareholders	—	—	—	—	—	—	—	—
2. Equity settled share expenses charged to equity	—	3,666	—	—	—	—	—	3,666
3. Others	—	—	—	—	—	—	—	—
(4) Profit appropriation								
1. Appropriation to surplus reserves	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	(686,190)	—	(686,190)
3. Proposed final dividends	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
(5) Transfer of shareholders' equity								
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
(6) Others	—	—	—	—	—	—	—	—
1. Effect of changes of other equity holders' interest in invested entities by equity method	—	—	—	—	—	—	—	—
III. Current period's closing balance	3,440,078	9,461,007	(40,537)	925,674	140,635	—	(16,797)	13,910,060



# Statement of Changes in Equity (continued)

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

	For the six months ended 30 June 2011 (unaudited)							
	Share capital	Capital reserve	Restricted shares subject to lock-up	Surplus reserve	Retained profits	Proposed final dividends	Foreign currency translation differences	Total shareholders' equity
I. Current period's opening balance	2,866,732	9,066,202	(276,266)	875,295	1,542,299	841,297	(15,413)	14,900,146
II. Changes during the period								
(1) Net profit	—	—	—	—	335,760	—	—	335,760
(2) Other comprehensive income	—	—	—	—	—	—	(209)	(209)
Total comprehensive income	—	—	—	—	335,760	—	(209)	335,551
(3) Shareholder's capital injection and capital reduction								
1. Capital injection from shareholders	—	—	—	—	—	—	—	—
2. Equity settled share expenses charged to equity	—	34,670	—	—	—	—	—	34,670
3. Others	—	—	—	—	—	—	—	—
(4) Profit appropriation								
1. Appropriation to surplus reserves	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	(841,297)	—	(841,297)
3. Proposed final dividends	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
(5) Transfer of shareholders' equity								
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
(6) Others								
1. Effect of changes of other equity holders' interest in invested entities by equity method	—	—	—	—	—	—	—	—
III. Current period's closing balance	2,866,732	9,100,872	(276,266)	875,295	1,878,059	—	(15,622)	14,429,070

# Cash Flow Statement

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

	Six months ended 30 June 2012 (unaudited)	Six months ended 30 June 2011 (unaudited)
<b>I. Cash flows from operating activities</b>		
Cash received from sale of goods or rendering of services	32,932,537	25,995,501
Refunds of taxes	3,206,316	2,135,676
Cash received relating to other operating activities	313,031	3,250,718
<b>Sub-total of cash inflows</b>	<b>36,451,884</b>	<b>31,381,895</b>
Cash paid for goods and services	34,547,203	29,730,608
Cash paid to and on behalf of employees	2,311,533	2,477,421
Cash paid for all types of taxes	429,217	309,497
Cash paid relating to other operating activities	2,579,575	3,072,147
<b>Sub-total of cash outflows</b>	<b>39,867,528</b>	<b>35,589,673</b>
<b>Net cash flows from operating activities</b>	<b>(3,415,644)</b>	<b>(4,207,778)</b>
<b>II. Cash flows from investing activities</b>		
Cash received from sale of investments	—	493,155
Cash received from return on investments	17,187	28,572
Cash received from disposal of fixed assets, intangible assets and other long-term assets, net	17,111	25,048
<b>Sub-total of cash inflows</b>	<b>34,298</b>	<b>546,775</b>
Cash paid to acquisition of fixed assets, intangible assets and other long term assets	632,496	607,575
Cash paid for acquisition of investments	150,502	214,500
<b>Sub-total of cash outflows</b>	<b>782,998</b>	<b>822,075</b>
<b>Net cash flows from investing activities</b>	<b>(748,700)</b>	<b>(275,300)</b>
<b>III. Cash flows from financing activities</b>		
Cash received from capital injections	—	—
Including: Capital injection into subsidiaries by non-controlling shareholders	—	—
Cash received from borrowings	13,598,394	7,356,664
<b>Sub-total of cash inflows</b>	<b>13,598,394</b>	<b>7,356,664</b>
Cash repayments of borrowings	8,215,339	2,312,007
Cash payments for distribution of dividends, profits and interest expenses	330,800	281,531
Including: Distribution of dividends and profits by subsidiaries to non-controlling shareholders	—	—
<b>Sub-total of cash outflows</b>	<b>8,546,139</b>	<b>2,593,538</b>
<b>Net cash flows from financing activities</b>	<b>5,052,255</b>	<b>4,763,126</b>
<b>IV. Effect of changes in foreign exchange rate on cash</b>	<b>(36,142)</b>	<b>(65,585)</b>
<b>V. Net increase in cash and cash equivalents</b>	<b>851,769</b>	<b>214,463</b>
Add: cash and cash equivalents at the beginning of the period	13,276,732	9,505,157
<b>VI. Net balance of cash and cash equivalents</b>	<b>14,128,501</b>	<b>9,719,620</b>

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

## I. CORPORATE BACKGROUND

ZTE Corporation (the “Company”) was a limited liability company jointly founded by Shenzhen Zhongxingxin Telecommunications Equipment Company Limited, China Precision Machinery Import & Export Shenzhen Company, Lishan Microelectronics Corporation, Shenzhen Zhaoke Investment Development Company Limited, Hunan Nantian (Group) Company Limited, Jilin Posts and Telecommunications Equipment Company and Hebei Telecommunications Equipment Company Limited and incorporated in People’s Republic of China (“PRC”) through a public offering of shares to the general public. As approved under Document Zheng Jian Fa Zi (1997) No. 452 and Document Zheng Jian Fa Zi No. 453 issued by China Securities Regulatory Commission, on 6 October 1997, the Company issued ordinary shares to the general public within the network through the Shenzhen Stock Exchange and the shares were listed and traded on the Shenzhen Stock Exchange on 18 November 1997.

In 2003, Shenzhen Zhaoke Investment Development Company Limited transferred its entire shares in the Company to Shenzhen Gaotejia Venture Investment Company Limited. The date of the share transfer was more than three years from the date of establishment of the Company and therefore was in compliance with the applicable provision under the PRC Company Law. In December 2003, Shenzhen Gaotejia Venture Investment Company Limited transferred its entire shares in the Company to Fortune Trust & Investment Company Ltd. Fortune Trust & Investment Company Ltd. transferred its entire shares in the Company to Jade Dragon (Mauritius) Company Limited in November 2005. On 29 December 2006, the shares of the Company owned by Jade Dragon (Mauritius) Company Limited were unlocked.

On 11 November 1997, the Company was registered and established upon approval by Guangdong Shenzhen Industrial and Commercial Administrative Bureau with registration no. of 440301103852869 (revised on 23 February 2009). The Company and its subsidiaries (collectively the “Group”) mainly engaged in production of remote control switch systems, multimedia communications systems and communications transmission systems; provision of technical design, development, consultation and related services for the research and manufacture and production of mobile communications systems equipment, satellite communications, microwave communications equipment, beepers, computer hardware and software, closed-circuit TVs, microwave communications, automated signal control, computer information processing, process monitoring systems, fire alarm systems; provision of technical design, development, consultation and related services for wireline and wireless communications projects of railways, mass transit railways, urban rail transit, highways, plants and mines, ports and terminals and airports (excluding restricted projects); purchase and sale of electronics devices, micro-electronics components (excluding franchised, state-controlled and monopolized merchandises); sub-contracting of communications and related projects outside the PRC and global tendering projects within the PRC, as well as import and export of the equipment and materials required by the aforesaid projects outside the PRC and sending labors and workers for carrying out the aforesaid projects outside the PRC; technical development and sale of electronics systems equipment (excluding restricted items and franchised, state controlled and monopolized merchandises); operations of import and export businesses (implemented in accordance with the provision under the certificate of qualifications approved and issued by Shenzhen Bureau of Trade and Development); specialized subcontracting of telecommunications projects.

On 9 December 2004, pursuant to a resolution adopted at the Company’s second extraordinary shareholders’ general meeting of 2004 and the provision under the revised Articles of Association, and upon approval under Document Guo Zi Gai Ge [2004] No. 865 issued by State-owned Assets Supervision and Administration Commission of the State council and verification and approval under Document Zheng Jian Guo He Zi [2004] No. 38 issued by China Securities Regulatory Commission, the Company made an overseas public offering of 160,151,040 overseas listed foreign invested shares (H Shares), of which 158,766,450 new shares were issued by the Company and 1,384,590 shares were sold by the Company’s state-owned corporate shareholders.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

## I. CORPORATE BACKGROUND (CONTINUED)

On 28 December 2005, the share reform plan of the Company was formally implemented and completed. On the first trading day subsequent to the implementation of the share reform plan, all original non-tradable shares held by non-tradable shareholders of the Company obtained the right of listing and circulation. As at 31 December 2008, all restricted shares held by the controlling shareholder had been converted into unrestricted shares.

Pursuant to a resolution of the 2007 annual general meeting of the Company, the share capital of the Company was increased by 383,808,660 shares in 2008 by way of capitalization of reserves with the issue of 4 Shares for every 10 Shares on the basis of the Company's share capital of 959,521,650 shares as at 31 December 2007. The registered capital of the Company increased to RMB1,343,330,310 upon completion of the capitalisation.

Pursuant to a resolution of the 2008 annual general meeting of the Company, the share capital of the Company was increased by 402,999,092 shares in 2009 by way of capitalization of reserves with the issue of 3 Shares for every 10 Shares on the basis of the Company's share capital of 1,343,330,310 shares as at 31 December 2008. The registered capital of the Company increased to RMB1,746,329,402 upon completion of the capitalisation.

At the Twenty-sixth Meeting of the Fourth Session of the Board of Directors of the Company held on 6 July 2009, it was ratified that a total Subject Share quota of 85,050,238 shares had been granted to 4,022 Scheme Participants under the Phase I Share Incentive Scheme of the Company. After the deduction of Subject Share quota of 43,425 shares which had lapsed, the total number issued share capital of the Company has increased by 85,006,813 shares and the total share capital of the Company in issue following the grant was 1,831,336,215 shares.

On 21 January 2010, the Company completed the placing of its new H shares, pursuant to which 58,294,800 H shares were issued and allotted. Following the issue of new H shares, the total share capital increased from 1,831,336,215 shares to 1,889,631,015 shares.

As at the close of trading on 12 February 2010, a total of 23,348,590 "ZXC1" Warrants (representing approximately 35.81% of the number of warrants prior to the exercise) had been exercised and a total of 41,851,410 unexercised Warrants were cancelled. Following the exercise of the warrants, the Company's A share capital increased by 21,523,441 shares, and the total share capital of the Company was increased from 1,889,631,015 shares before the exercise to 1,911,154,456 shares after the exercise.

On 4 June 2010, 3,239 Scheme Participants under the first award of the Phase I Share Incentive Scheme fulfilled the conditions for the second unlocking of Subjects Shares. A total of 26,452,094 A shares were unlocked as Subject Shares of the second unlocking. The total number of share capital remained unchanged after the unlocking, although there was a change in the inherent structure of the share capital.

The implementation of the Company's 2009 profit distribution and capitalisation of capital reserve was completed on 24 June 2010, whereby 5 bonus shares for every 10 shares held were issued based on the number of shares recorded in the shareholders' register on the record date by way of capitalisation of capital reserve. The share capital was increased by a total of 955,577,228 shares as a result, and the total share capital after the capitalisation was 2,866,731,684 shares.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

## I. CORPORATE BACKGROUND (CONTINUED)

On 15 December 2010, 763 Scheme Participants under the second award of the Phase I Share Incentive Scheme fulfilled the conditions for the first unlocking of Subjects Shares. A total of 2,520,957 A shares were unlocked as Subject Shares of the first unlocking. The total number of share capital remained unchanged after the unlocking, although there was a change in the inherent structure of the share capital.

The implementation of the Company's 2010 profit distribution and capitalisation of capital reserve was completed on 7 July 2011, whereby 2 bonus shares for every 10 shares held were issued based on the number of shares recorded in the shareholders' register on the record date by way of capitalisation of capital reserve. The share capital was increased by a total of 573,346,336 shares as a result, and the total share capital after the capitalisation was 3,440,078,020 shares.

On 21 July 2011, 3,199 Scheme Participants under the first award of the Phase I Share Incentive Scheme fulfilled the conditions for the third unlocking of Subjects Shares. A total of 60,532,063 A shares were unlocked as Subject Shares. The total number of share capital remained unchanged after the unlocking, although there was a change in the inherent structure of the share capital.

On 29 December 2011, 752 Scheme Participants under the second award of the Phase I Share Incentive Scheme fulfilled the conditions for the second unlocking of Subjects Shares. A total of 5,230,667 A shares were unlocked as Subject Shares. The total number of share capital remained unchanged after the unlocking, although there was a change in the inherent structure of the share capital.

As at 30 June 2012, the total number of the Company's issued share capital on an accumulative basis was 3,440,078,020 shares. For details please refer to Note V.32.

The controlling shareholder of the Group is Shenzhen Zhongxingxin Telecommunications Equipment Company Limited, a company incorporated in the PRC.

The financial statements were approved by the Board of Directors of the Company by way of resolution on 22 August 2012.

## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

### 1. Basis of preparation

These financial statements have been prepared in accordance with the "Enterprise Accounting Standards — Basic Standards" and 38 specific accounting standards, subsequent practice notes, interpretations and other relevant regulations (collectively "ASBEs") promulgated by the Ministry of Finance in February 2006.

The financial statements are prepared on a going concern basis.

The Group's accounts have been prepared on an accrual basis. All items are recorded by using historical cost as the basis of measurement except for some financial instruments and investment properties. Impairment provision is made according to relevant regulation if the assets are impaired.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
Currency: RMB'000  
(English translation for reference only)

## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 2. Statement of compliance

The financial statements truly and completely reflect the financial position of the Group and the Company as at 30 June 2012 and the results of their operations and their cash flows for the first half year of 2012.

### 3. Financial year

The financial year of the Group is from 1 January to 31 December of each calendar year.

### 4. Reporting currency

Reporting currency and the currency used in preparing the financial statements were Renminbi. The amounts in the financial statements were denominated in thousand of Renminbi, unless otherwise stated.

The Group's subsidiaries, jointly-controlled entities and associates determine their reporting currency according to the major economic environment in which they operate the business, and translate into Renminbi when preparing the financial statements.

### 5. Business combination

Business combination represents transaction which combines two or more separate businesses into one reporting entity. Business combinations are classified into business combinations involving entities under common control and business combinations not involving entities under common control.

#### *Business combinations involving entities under common control*

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The combining party is the entity that obtains control of the other entities participating in the combination at the combination date, and the other entities participating in the combination are the parties being combined. The combination date is the date on which the combining party effectively obtains control of the parties being combined.

Assets and liabilities obtained by combining party in the business combination are recognized at their carrying amounts at the combination date as recorded by the party being combined. The difference between the carrying amount of the consideration paid for the combination (or aggregate face values of the shares issued) and the carrying amount of the net assets obtained is adjusted to capital reserves. If the capital reserve is not sufficient to absorb the difference, any excess is adjusted to retained profits.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 5. Business combination (continued)

#### *Business combinations not involving entities under common control*

A business combination not involving entities under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. The acquirer is the entity that obtains control of the other entities participating in the combination at the acquisition date, and the other entities participating in the combination are the acquirees. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair values at the acquisition date.

The excess of the sum of the consideration paid (or equities issued) for business combination and equity interests in the acquiree held prior to the date of acquisition over the share of the attributable net identifiable assets of the acquiree, measured at fair value, was recognized as goodwill, which is subsequently measured at cost less cumulative impairment loss. In case the fair value of the sum of the consideration paid (or equities issued) and equity interests in the acquiree held prior to the date of acquisition is less than the fair value of the share of the attributable net identifiable assets of the acquiree, a review of the measurement of the fair values of the identifiable assets, liabilities and contingent liabilities, the consideration paid for the combination (or equity issued) and the equity interests in the acquiree held prior to the date of acquisition is conducted. If the review indicates that the fair value of the sum of the consideration paid (or equities issued) and equity interests in the acquiree held prior to the date of acquisition is indeed less than the fair value of the share of the attributable net identifiable assets of the acquiree, the difference is recognized in current profit or loss.

### 6. Consolidated financial statements

The consolidation scope for consolidated financial statement is determined based on the concept of control, including the Company and all subsidiaries' financial statements as at 30 June 2012. Subsidiaries are those enterprises or entities which the Company has control over.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All balances, transactions and unrealized profit and loss arising from intercompany transactions, and dividends are eliminated on consolidation.

The excess of current loss attributable to non-controlling shareholders of a subsidiary over their entitlements to the opening balance of shareholders' equity shall be charged to non-controlling interests. A change in non-controlling interests without loss of control is accounted for as an equity transaction.

For subsidiaries obtained through a business combination not involving entities under common control, the operating results and cash flows of the acquirees will be recognized in consolidated financial statements from the date the Group effectively obtains the control until the date that control is terminated. When consolidated financial statement is prepared, the subsidiaries' financial statements will be adjusted based on the fair values of the identifiable assets, liabilities and contingent liabilities at the acquisition date.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 6. Consolidated financial statements (continued)

For subsidiaries obtained through a business combination involving entities under common control, the operating result and cash flow of the party being combined will be recognized in consolidated financial statement from the beginning of the period during which the combination occurs. In preparing the comparative consolidated financial statements, adjustments were made to relevant items in financial statements in previous periods as if the reporting entity formed after the consolidation had been in existence since the ultimate controlling party started to exercise effective control.

### 7. Cash and cash equivalents

Cash comprises cash on hand and deposits readily available for payments. Cash equivalents represent short-term highly liquid investments which are readily convertible to known amounts of cash, and subject to an insignificant risk of changes in value.

### 8. Foreign currency translation

For foreign currency transactions, the Group translates the foreign currency into its functional currency.

Upon initial recognition, foreign currency transactions are translated into the functional currency using the median exchange rate published by the People's Bank of China at the beginning of the month when transactions occur. At the balance sheet date, foreign currency monetary items are translated using the spot exchange rate at the balance sheet date. The differences in settlement and monetary items arising from the above translation, except those relating to foreign currency borrowings for the acquisition, construction or production of assets eligible for the capitalization shall be dealt with according to the principle of capitalization of borrowing costs, are recognized in profit or loss. Also at the balance sheet date, foreign currency non-monetary items measured at historical cost continue to be translated using the spot exchange rate at the dates of the transactions and it does not change its carrying amount in functional currency. Foreign currency non-monetary items measured at fair value are translated using the spot exchange rate. The differences arising from the above translations are recognized in current profit or loss or other comprehensive income depending on the nature of the non-monetary items.

The Group translates the functional currencies of foreign operations into Renminbi when preparing the financial statements. Asset and liability items in the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date. Shareholders' equity items, except for retained profits, are translated at the spot exchange rates at the date when such items arose. Income and expense items in the income statement are translated using the average exchange rate for the periods when transactions occur. Translation differences arising from the above translation are presented as a separate line item under shareholders' equity in the balance sheet. When foreign operations are disposed, other comprehensive income relating to the foreign operation is transferred to current profit or loss. Partial disposal shall be recognized on a pro-rata basis.

Cash flows denominated in foreign currencies and foreign subsidiaries' cash flows are translated using the average exchange rate for the period when cash flows occur. The impact on cash by the fluctuation of exchange rates is presented as a separate line item of reconciliation in the cash flow statement.



# Notes to Financial Statements

(Prepared under PRC ASBES)  
 Currency: RMB'000  
 (English translation for reference only)

## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 9. Financial instruments

Financial instruments refer to the contracts which give rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

#### *Recognition and derecognition of financial instruments*

The Group recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the financial instrument.

A financial asset (or part of it, or a part of a group of similar financial asset) is derecognized when one of the following criteria is met:

- (1) The right of receiving the cash flow generated from the financial asset has expired;
- (2) The right of receiving cash flow generated by the financial assets is transferred, or an obligation of paying the full amount of cash flow received to third parties in a timely manner has been undertaken under "pass-through" agreements, where (a) substantially all risks and rewards of the ownership of such financial assets have been transferred, or (b) control over such financial assets has not been retained even though substantially all risks and rewards of the ownership of such financial assets have been neither transferred nor retained.

If the obligation of financial liability has been fulfilled, cancelled or expired, the financial liability is derecognized. If the present financial liability is substituted by the same debtor with another liability differing in substance, or the terms of the present liability have been substantially modified, this substitution or modification is treated as derecognition of a present liability and recognition of a new liability with any arising differences recognized in profit or loss.

Conventional dealings in financial assets are recognised or derecognised under the trade day accounting method. Conventional dealings refer to the receipt or delivery of financial assets within periods stipulated by the law and according to usual practices. The trade day is the date on which the Group undertakes to buy or sell a financial asset.

#### *Classification and valuation of financial assets*

The Group classifies its financial assets into four categories at initial recognition: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets and derivatives designated as effective hedging instruments. Financial assets are initially recognized at fair value. For financial assets at fair value through profit or loss, the relevant transaction costs are directly recognized in profit or loss; for other financial assets, the relevant transaction costs are recognized in their initial recognition amount.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
Currency: RMB'000  
(English translation for reference only)

## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 9. Financial instruments (continued)

#### *Classification and valuation of financial assets (continued)*

The subsequent measurement of financial assets is dependent on its classification:

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss comprise derivative financial assets and those designated at fair value through profit or loss at inception. Financial assets are classified as derivative if they satisfy one of the following conditions: they are acquired or incurred principally for the purpose of selling or repurchasing in the near term; they are part of a portfolio of identified financial instruments that are managed together, and for which there is objective evidence of a recent pattern of short-term profit taking; they are derivative financial instruments, with the exception of derivatives designated as valid arbitrage, derivatives under financial guarantee contracts and derivatives linked to and settled by way of delivery of equity investments not quoted in an active market and whose fair value cannot be reliably measured. These financial assets are subsequently measured at fair value, and gain or loss from changes in fair value and derecognition are recognized in current period's profit or loss. Dividends or interest income derived from financial assets at fair value through profit or loss are also recognized in current profit or loss.

#### *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets whose maturity and redemption amount are fixed or ascertained and in respect of which the Group has clear intentions and ability to hold until maturity. Such financial assets are subsequently measured using the effective interest method on the basis of amortised cost. Gains or losses arising from derecognition, impairment or amortization are recognised in the current profit or loss.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available for-sale or those financial assets that are not classified in any of the above categories. Subsequent to initial recognition, these financial assets are measured at fair value. Gains and losses arising from fair value changes in available-for-sale financial assets, except for impairment losses and foreign currency monetary items' translation differences which are recognized in profit or loss, are recognized as other comprehensive income in capital reserves until the financial assets are derecognized or impaired upon which the cumulative gains or losses are transferred out from capital reserves to profit or loss. Dividends or interest income derived from available-for-sale financial assets is recognized in profit or loss.

Equity investments that are not quoted in an active market and whose fair value cannot be reliably measured are carried at cost.

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## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 9. Financial instruments (continued)

#### *Classification and valuation of financial liabilities*

The Group classifies its financial liabilities at initial recognition: financial liabilities at fair value through profit or loss, other financial liabilities and derivatives designated as effective hedging instruments. For financial liabilities at fair value through profit or loss, the relevant transaction costs are directly recognized in profit or loss; for other financial liabilities, the relevant transaction costs are recognized in their initial recognition amount.

The subsequent measurement of financial assets is dependent on its classification:

#### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss comprise derivative financial liabilities and those designated at fair value through profit or loss at inception. Financial liabilities are classified as derivative if they satisfy one of the following conditions: they are acquired or incurred principally for the purpose of selling or repurchasing in the near term; they are part of a portfolio of identified financial instruments that are managed together, and for which there is objective evidence of a recent pattern of short-term profit taking; they are derivative financial instruments, with the exception of derivatives designated as valid arbitrage, derivatives under financial guarantee contracts and derivatives linked to and settled by way of delivery of equity investments not quoted in an active market and whose fair value cannot be reliably measured. These financial liabilities are subsequently measured at fair value, and all realized or unrealised gain or loss are recognized in current period's profit or loss.

#### *Other financial liabilities*

Subsequent to initial recognition, these financial assets are carried at amortized cost using the effective interest method.

#### *Financial guarantee contracts*

A financial guarantee contract is a contract under which the guarantor and the creditor agree that the guarantor shall assume the debts or liability in the event of default of the debtor. Financial guarantee contracts are initially recognized as liability at fair value. Financial guarantee contracts not classified as financial liabilities designated at fair value through profit or loss, after initial recognition, are subsequently measured at the higher of: (i) the amount of the best estimates of the expenditure required to settle the present obligations at the balance sheet date; and (ii) the initial amount less accumulated amortization.

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## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 9. Financial instruments (continued)

#### *Derivative financial instruments*

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations and interest rate swaps to hedge against interest rate risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivatives linked to and settled by way of delivery of equity investments not quoted in an active market and whose fair value cannot be reliably measured that are not quoted in an active market and whose fair value cannot be reliably measured are carried at cost.

Any gains or losses arising from the change in fair value on derivatives are taken directly to the income statement, except for those falling under cash flow hedging, which shall be recognized in other comprehensive income.

#### *Bonds cum warrants*

Upon issuance, the Group determines in accordance with the terms of the Bonds cum Warrants whether such Bonds cum Warrants consist of both equity and liability components. For Bonds cum Warrants that carry both equity and liability components, liability and equity are separately dealt with upon initial recognition. During the segregation, the fair value of the liability is first determined and recognized. Then the initial recognition of the equity component is determined by deducting the initial liability recognition amount from the overall issue price of the Bonds cum Warrants. Transaction costs are apportioned between liability and equity components according to their respective fair values. The liability component is presented as liability and subsequently measured on an amortised cost basis, until it is cancelled, converted or redeemed. The equity component is presented as equity and not remeasured in subsequent years.

#### *The fair value of financial instruments*

If there is an active market for a financial asset or financial liability, the Group uses quoted prices in the active market to establish its fair value. For financial instruments without active market, the fair value is established by using valuation techniques. Valuation techniques include reference to most recent market prices used by knowledgeable and willing parties, reference to current fair value of other financial instrument with similar nature, discounted cash flow method and option valuation models.

#### *Impairment of financial assets*

The Group assesses the carrying amount of financial assets at the balance sheet date. If there is any objective evidence that a financial asset is impaired, the Group provides for such impairment losses. The objective evidence, which indicates impairment of financial assets, represents events actually occurring after initial recognition of financial assets, having an impact on financial assets' estimated future cash flows, and such impact can be reliably measured.

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## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 9. Financial instruments (continued)

#### *Impairment of financial assets (continued)*

##### *Assets carried at amortised cost*

If there is objective evidence that an impairment loss on such financial assets has been incurred, the financial asset's carrying amount is reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (namely the effective interest rate determined at initial recognition), taking into account the value of relevant collaterals. If floating interest rates are used, the current effective interest rate stipulated in the contract shall be adopted as the discount rate in calculating the present value of the future cash flows.

For a financial asset that is individually significant, the Group assesses the asset individually for impairment if there is objective evidence of impairment, and recognizes the amount of impairment in profit or loss. For a financial asset that is not individually significant, the Group include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether the financial asset is individually significant or not, the financial asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Financial assets, for which an impairment loss is individually recognized, are not included in the collective assessment for impairment.

After the Group recognizes impairment loss of financial assets carried at amortized cost, if there is objective evidence that the financial assets' value recovered and the recovery is objectively related to an event occurring after the impairment is recognized, the previously recognized impairment loss shall be reversed and recognized in profit or loss. However the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date when the impairment is reversed.

##### *Available-for-sale financial assets*

If an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognized directly in capital reserves is removed from capital reserves and recognized in profit or loss. The cumulative loss that is removed from capital reserves is the difference between its acquisition cost (net of any principal repayment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss.

If after an impairment loss has been recognized on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period whereby the increase can be objectively related to an event occurring after the impairment losses were recognized, the impairment loss is reversed which is recognized in profit or loss. Impairment losses recognized for equity instruments classified as available-for-sale are not reversed through profit or loss. Fair value gains that arise after the impairment are directly recognized in other comprehensive income.

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## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 9. Financial instruments (continued)

#### *Impairment of financial assets (continued)*

##### *Assets carried at cost*

If financial assets carried at cost are impaired, the impairment loss are recognized in profit or loss and measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

For long term equity investments measured using the cost method regulated in “ASBE No. 2 – Longterm equity investments” which have no quotation in an active market and whose fair value cannot be reliably measured, their impairment is also calculated in accordance with the aforementioned principle.

##### *Derecognition of financial assets*

If the Group has transferred substantially all the risks and rewards associated with the ownership of a financial asset to the transferee, the asset should be derecognized. If the Group retains substantially all the risks and rewards of ownership of a financial asset, the asset should not be derecognized.

When the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, it may either derecognize the financial asset and recognize any associated assets and liabilities if control of the financial asset has not been retained; or recognizes the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes an associated liability if control has been retained.

### 10. Accounts Receivable

#### *(1) Individually significant accounts receivable for which separate bad-debt provision is made*

The Group conducts impairment tests in respect of its significant account receivables and makes provision for impairment when there is objective evidence of impairment. Objective evidence for impairment includes: (1) significant financial difficulties experienced by the debtor; (2) default on or non-payment of due interest or principal payments; (3) concessions made to the insolvent debtor by creditors owing to economic or legal considerations; (4) probable bankruptcy or other financial reorganisation of the debtor; (5) inability to recover the debt after repayments from the bankruptcy assets or the estate upon the bankruptcy or death of the debtor.

An account receivable is considered individually significant if it amounts to 0.1% of the total original value of all accounts receivable in aggregate.

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## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 10. Accounts Receivable (continued)

(2) *Accounts receivable for which collect bad debt provision is made*

Individually insignificant accounts, for which there is no objective evidence under individual impairment tests warranting individual provision, are divided into different asset groups based on their credit risk characteristics, and each group is assessed in accordance with different policies to determine their impairment provision. The management divides trade receivables (other than those in respect of which individual asset impairment provision has been made) into the following asset groups as follows on the basis of credit risk rating and historical repayment records:

	Percentage of provision (%)
0–6 months	—
7–12 months	0–15
13–18 months	5–60
19–24 months	15–85
2–3 years	50–100
over 3 years	100

### 11. Inventories

Inventories include raw materials, materials sub-contracted for processing, work-in-progress, finished goods, materials for construction-in-progress and product deliveries.

Inventories are initially recorded at costs. Inventories' costs include purchasing costs, processing costs and other costs. Actual costs of goods delivered are recognized using the weighted moving average method. Materials for construction-in-progress include low-value consumables and packaging materials, which are amortised using the separate amortization method/one-off write-off method.

Inventories are valued using the perpetual inventories system.

Inventories at the end of the year are stated at the lower of cost or net realizable value. Provision for impairment of inventories is made and recognized as expenses when the net realizable value is lower than cost. If the factors that give rise to the provision in prior years are not in effect in current year, as a result that the net realizable value of the inventories is higher than cost, provision should be reversed within the impaired cost, and recognized in profit or loss.

Net realizable values represent estimated selling prices less any estimated costs to be incurred to completion, estimated selling expenses and relevant tax amounts. Provision for impairment of inventories is made on the basis of individual categories.

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## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 12. Long-term equity investments

Long-term equity investments include equity investments in subsidiaries, joint ventures and associates, as well as equity investments in investees over the Company does not exercise control, common control or significant influence which are not quoted in an active market and the fair value of which cannot be reliably measured.

Long-term equity investments were recorded at initial investment cost on acquisition. The initial investment cost of long-term equity investments derived from business combination through the merger of companies under the common control is measured as the share of the carrying value of the owner's equity of the acquiree. The initial investment cost of long-term equity investments derived from business combination through the merger of companies not under the common control is measured at the acquisition costs (The initial investment cost of the merger of companies not under the common control through multiple transactions in different stages is measured at the sum of the carrying value of equity investments in the acquiree held prior to the date of acquisition and the cost of additional investment on the date of acquisition). Acquisition costs represent the sum of the fair values of assets paid, liabilities incurred or assumed and equity instruments issued by the acquirer. The initial investment cost of long-term equity investments acquired other than through business combination is determined in the following manner: where the acquisition is made by cash payment, the initial investment cost is measured at the actual cash payment plus expenses directly related to the acquisition of the long-term investment, tax and other necessary expenses. Where equity securities are issued as consideration, the initial investment cost is measured at the fair value of the equity securities. Where the acquisition is funded by investors, the initial investment cost is measured at the value stipulated in the investment contract or agreement, unless the value so agreed is deemed unfair.

The cost method is used when the Group does not jointly control or has significant influence over the investee, and the long term equity investments are not quoted in active markets, and have no reliably measurable fair values. In the financial statements of the Company, the cost method is used for longterm equity investments in investees over which the Company exercises control. Control is defined as the power to determine the financial and operational policies of a corporation so as to derive gains from the operations of such corporation.

When the cost method is used, long-term equity investments are measured at initial cost on acquisition. Other than prices actually paid upon the acquisition or cash dividends or profit included in the consideration which have been declared but not yet paid, cash dividends or profit declared by the invested enterprise are recognized as investment income for the current period. Impairment of longterm investments is considered in accordance with relevant asset impairment policies.

The equity method is used to account for long-term equity investments when the Group can jointly control or has significant influence over the invested entity. Joint control means sharing control over certain economic activities pursuant to contractual agreements and exists only if significant financial and operational decisions relating to such economic activities require unanimous approval of investing parties sharing such control. Significant influence means having the authority to take part in the decision over the financial and operational policies but not the authority to control or jointly control with other parties the formulation of such policies.



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## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 12. Long-term equity investments (continued)

Under the equity method, any excess of the initial investment cost over the Company's share of the net fair value of the investment's identifiable assets and liabilities is included in the initial investment cost of the long-term equity investment. Any excess of the Company's share of the investment's identifiable assets and liabilities over the cost of investment is excluded from the carrying amount of the investment and recognized in profit and loss for the current period, and the cost of long-term equity investment is adjusted accordingly.

Under the equity method, after the long-term equity investments are acquired, investment gains or losses are recognized and the carrying amount of the long-term equity investment is adjusted to reflect the Group's share of the investee's net profit or loss. When recognizing the Group's share of the net profit or loss of the invested entity, the Group makes adjustments based on fair values of the investees' identifiable assets and liabilities at the acquisition date and in accordance with the Group's accounting policy and accounting period to investee's net profits which also eliminates profit or loss from intertransactions with associates and joint ventures attributed to investor which is calculated pro rata on the basis of share percentage (for loss from inter-transactions belonging to impairment loss, it shall be wholly recognized). When the invested enterprise declares profit appropriations or cash dividends, the carrying amount of investment is adjusted down by the Group's share of the profit appropriations and dividends. The Group shall discontinue recognizing its share of the losses of the investee after the long-term equity investment together with any long-term interests that in substance forms part of the Group's net investment in the investee are reduced to zero, except to the extent that the Group has incurred obligations to assume additional losses. The Group also adjusts the carrying amount of long-term equity investments for other changes in owner's equity of the investees (other than net profits or losses), and includes the corresponding adjustment in equity.

On disposal of the long-term equity investments, the difference between book value and market price is recognized in profit or loss for the current period. Long-term equity investments accounted for under the equity method and recognised in the shareholders' equity shall be transferred to profit or loss for the current period on a proportionate basis upon disposal.

For details of impairment test methods and impairment provision methods for long-term equity investments in subsidiaries, jointly-controlled entities and associates, please refer to Note II.25. For details of impairment test methods and impairment provision methods for other long-term equity investments not quoted in an active market and whose fair value cannot be reliably measured, please refer to Note II.9.

### 13. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties of the Group included houses and buildings leased to other parties and buildings under construction for lease to other parties in future.

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## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 13. Investment properties (continued)

Investment properties are initially measured at cost. Subsequent expenses relating to the investment properties are charged to investment property costs if there is a probable inflow of economic benefits relating to the asset and its cost can be reliably measured, otherwise they shall be charged to current profit and loss.

Investment properties of the Group are reclassified from owned properties and measured at fair value. The amount of fair value in excess of the book value as at the date of reclassification is included in the capital reserve. Investment properties of the Group are measured and presented in fair value and no depreciation or amortisation will be charged. The book value of an investment property is adjusted on the basis of its fair value as at the balance sheet date, and the difference between the fair value and the original book value shall be included in current profit and loss. Fair values are regularly assessed by independent valuers based on open market prices.

### 14. Fixed assets

A fixed asset is recognized when, and only when, it is probable that future economic benefits that are associated with the fixed asset will flow to the Group and the cost can be measured reliably. Subsequent expenditures related to a fixed asset are recognized in the carrying amount of the fixed asset if the above recognition criteria are met, and the book value of the replaced part is derecognized; otherwise, those expenditures are recognized in profit or loss as incurred.

Fixed assets are initially recognized at cost taking into account the impact of expected future disposal expenditure. Cost of purchased fixed assets includes purchasing price, relevant taxes, and any directly attributable expenditure for bringing the asset to working conditions for its intended use.

Fixed assets are depreciated on a straight-line basis, and the respective estimated useful lives, estimated residual values and annual depreciation rates are as follows:

	Useful life	Estimated Residual value ratio	Annual depreciation rate
Freehold land	Indefinite	—	N/A
Buildings (excluding temporary plants)	30 years	5%	3.17%
Electronic equipment	5–10 years	5%	9.5%–19%
Machinery equipment	5–10 years	5%	9.5%–19%
Motor vehicles	5–10 years	5%	9.5%–19%
Other equipment	5 years	5%	19%

The Group reviews, at least at each year end, useful lives, estimated residual values and depreciation methods of fixed assets and makes adjustments if necessary.

For details of impairment test methods and impairment provision methods for fixed assets, please refer to Note II.25.

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## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 15. Construction in progress

Construction-in-progress is measured at the actual construction expenditures, including the necessary costs incurred for fixed assets before they can be put into use and other related fees.

Construction-in-progress is transferred into fixed assets when it is ready for its intended use.

For details of impairment test methods and impairment provision methods for construction in progress, please refer to Note II.25.

### 16. Borrowing costs

Borrowing costs are interest and other costs incurred by the Group in connection with the borrowings of funds, which include borrowing interest, amortisation of discount or premium on debt, other supplementary costs and certain foreign exchange differences that occurred from the borrowings in foreign currencies.

Borrowing costs directly attributable to the acquisition or construction of assets qualified for capitalization, i.e., fixed assets, investment properties and inventories that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. Other borrowing costs are charged to current profit or loss.

Capitalization of borrowing costs begins where:

- (1) Capital expenditure has already happened;
- (2) Borrowing expenses has already incurred;
- (3) Purchasing or production activities to get the assets ready for their intended use or sale have already happened.

The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Borrowing costs incurred afterwards are recognized in profit or loss.

During capitalization, interest of each accounting period is recognized using the following methods:

- (1) Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings.
- (2) Where funds are part of a general pool, the eligible amount is determined by applying a capitalization rate to the expenditure on that asset. The capitalization rate will be the weighted average of the borrowing costs applicable to the general pool.

Except for expected suspension under normal situation of qualifying assets, capitalization should be suspended during periods in which abnormal interruption has lasted for more than three months during the process of acquisition, construction or production. The borrowing cost incurred during interruption should be recognized as expenses and recorded in the income statement until the construction resumes.

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## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 17. Intangible assets

Intangible assets are recognised only when it is probable that economic benefits relating to such intangible; assets would flow into the Group and that their cost can be reliably measured. Intangible assets are initially measured at cost, provided that intangible assets which are acquired in a business combination and whose fair value can be reliably measured shall be separately recognized as intangible assets at fair value.

Useful life of an intangible asset is determined by the period over which it is expected to bring economic benefits to the Group. For an intangible asset with no foreseeable limit to the period over which it is expected to bring economic benefits to the Group, it is treated as an intangible asset with indefinite useful life.

Useful life of respective intangible assets is as follows:

Item	Useful lives	Basis
Software	2–5 years	Useful life as stipulated in software agreements
Technology know-how	3–30 years	Useful life as stipulated in contracts or agreements
Land use rights	50–70 years	Useful life as stipulated in land transfer agreement
Operating concession	3–10 years	Useful life as stipulated in agreements

Land use rights acquired by the Group are normally accounted for as intangible assets. Land use rights and buildings relating to plants constructed by the Group are accounted for as intangible assets and fixed assets, respectively. The costs for acquiring land and buildings are apportioned between the land use rights and buildings, or accounted for as fixed assets if they cannot be apportioned.

Straight line amortization method is used during the useful life period for intangible assets with definite useful lives. The Group reviews, at least at each year end, useful lives and amortization method for intangible assets with definite lives and makes adjustment when necessary.

The Group classifies the expenses for internal research and development as research costs and deferred development costs. All research costs are charged to the income statement as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits (including demonstration that the product derived from the intangible asset or the intangible asset itself will be marketable or, in the case of internal use, the usefulness of the intangible asset as such), the availability of technical and financial resources to complete the project and procure the use or sale of the intangible asset, and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Corresponding projects in the Group are formed when they meet the above condition technical feasibility and economic feasibility studies. Then, those projects are progressed into the development phase.

For details of impairment test methods and impairment provision methods for intangible assets, please refer to Note II.25.

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## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 18. Provisions

Other than contingent consideration in a business combination and contingent liabilities undertaken, the Group recognizes as provision an obligation that is related to contingent matters and fulfils all the following criteria:

- (1) the obligation is a present obligation of the Group;
- (2) the obligation would probably result in an outflow of economic resources from the Group;
- (3) the obligation could be reliably measured.

Provisions are initially valued according to the best estimate of expenses on fulfilling the current liabilities, in connection with the risk, uncertainty and timing value of the currency. The book value of the provisions would be reassessed on every balance sheet date. The book value will be adjusted to the best estimated value if there is certain evidence that the current book value is not the best estimate.

### 19. Share-based payments

Share-based payments can be distinguished into equity-settled share-based payments and cash-settled share-based payments. Equity-settled share-based payments are transactions of the Group settled through the payment of shares of other equity instruments in consideration for receiving services.

Equity-settled share-based payments made in exchange for services rendered by employees are measured at the fair value of equity instruments granted to employees. Instruments which are vested immediately upon the grant are charged to relevant costs or expenses at the fair value on the date of grant and the capital reserve is credited accordingly. Instruments of which vesting is conditional upon completion of services or fulfillment of performance conditions are measured by recognizing services rendered during the period in relevant costs or expenses and crediting the capital reserve accordingly at the fair value on the date of grant according to the best estimates conducted by the Group at each balance sheet date during the pending period based on subsequent information such as latest updates on the change in the number of entitled employees and whether performance conditions have been fulfilled, and etc. The fair value of equity instruments is determined using the Black-Scholes option pricing model. For details see Note VII. Share-based payment.

The cost of equity-settled transactions is recognised, together with a corresponding increase in capital reserve, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognised for awards that do not ultimately vest, except where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other non-market conditions are satisfied.

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## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 19. Share-based payments (continued)

Where the terms of an equity-settled share-based payment are modified, as a minimum, services obtained are recognized as if the terms had not been modified. In addition, an expense is recognized for any modification which increases the total fair value of the instrument granted, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. Where employees or other parties are permitted to choose to fulfill non-vesting conditions but have not fulfilled during the pending period, equity-settled share-based payments are deemed cancelled. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the new awards are treated as if they were a modification of the original award.

### 20. Revenue

Revenue is recognized when it is probable that the economic benefits will flow to the Group and the amount of the revenue can be measured reliably. Revenue is recognized on the following bases:

#### *Revenue from the sales of goods*

Revenue from sales of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold and related costs incurred or to be incurred can be measured reliably. Revenue from sales of goods is determined according to amounts stipulated in contracts or agreements received or receivable from buyers, unless such amounts are deemed unfair. The receipt of amounts stipulated in contracts or agreements is recognized on a deferred basis. Those with a financing nature are measured at the fair value of amounts stipulated in contracts or agreements.

#### *Revenue from the rendering of services*

On the balance sheet date, when transaction result of the rendering of services could be measured reliably, related revenue from rendering of services is recognized according to the percentage of completion, otherwise revenue is recognized only to the extent of cost incurred and expected to be recoverable. The transaction result of the rendering of services could be measured reliably by meeting the following conditions at the same time: Revenue can be measured reliably, the relevant economic benefits will flow to the Group, the percentage of construction work and relevant cost incurred or to be incurred can be measured reliably. The percentage of completion is based on the percentage of costs incurred to date on a contract relative to the estimated total contract costs. Total revenue for the rendering of services is determined according to amounts stipulated in contracts or agreements received or receivable by workers, unless such amounts are deemed unfair.

Where the sales of goods and rendering of services are included in contracts or agreements between the Group and other enterprises, revenue is separately recognized according to the fair values of various sales items in the contracts, by reference to the aforesaid principles for revenue recognition.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
Currency: RMB'000  
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## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 20. Revenue (continued)

#### *Construction contracts*

Construction contract revenue and cost are recognised by percentage of completion at the balance sheet date where the results of the contract could be reliably estimated, otherwise revenue is recognized on the basis of the actual contract cost amount which has been incurred and is expected to be recoverable. The results of the contract can be reliably estimated if it is probable that economic benefits relating to the contract will flow to the Group and the actually incurred contract cost can be clearly distinguished and reliably measured. For contracts with fixed prices, the following conditions should also be met: the total revenue of the contract can be reliably measured, and percentage of completion and outstanding cost for completion can be reliably estimated. The percentage of completion is based on the percentage of costs incurred to date on a contract relative to the estimated total contract costs. Total contract revenue includes initial income stipulated by the contract and income derived from contract modifications, compensation and rewards, and etc.

#### *Interest income*

Interest income is determined by the length of time for which the Group's cash is in use by other parties and the effective interest rate.

### 21. Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. The grant is measured as the amount received or receivable where it takes the form of a cash asset, or at fair value where it is not a cash asset. Where the fair value cannot be reliably obtained, it should be measured at the nominal value. Government grants, relating to income and applied towards reimbursement of related costs or losses in subsequent periods, are recognized as deferred income and taken to current profit or loss for the period in which the related costs are recognized. Government grants, applied towards reimbursement of related costs or losses already incurred, are directly recognized in current profit or loss. Where the grant relates to an asset, it is recognized as a deferred income and allocated to the income statement over the expected useful life of the relevant asset by equal annual instalments. Where the grant is measured at nominal value, it is directly recognized in current profit or loss.

### 22. Income tax

Income taxes include current and deferred tax. Income taxes are recognized in current period's profit or loss as income tax expense or income tax benefit, except for the adjustment made for goodwill in a business combination and income tax from transactions or items that directly related to equity.

For current period's deferred tax assets and liabilities arising in current and prior periods, the Group measures them at the amount expected to be paid or recovered according to the relevant taxation regulations.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
Currency: RMB'000  
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## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 22. Income tax (continued)

The Group recognizes deferred tax assets and liabilities based on temporary differences using balance sheet liability method. Temporary differences are differences between the carrying amount of assets or liabilities in the balance sheet and their tax base on the balance sheet date. Temporary differences also include the differences between the book values and tax bases of items not recognized as assets or liabilities where the tax base can be calculated according to the relevant tax regulations.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- (1) Where the taxable temporary difference arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- (2) In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- (1) where the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- (2) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

As at balance sheet date, deferred tax assets and liabilities are measured in accordance with relevant tax laws at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, and reflects the tax consequences that would follow the manner in which the Group expects, at the balance sheet date, to recover the assets or settle the carrying amount of its assets and liabilities.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.



# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 23. Leases

Other than leases under which substantially all risks and rewards of ownership are transferred, which are classified as finance lease, all leases are classified as operating leases.

#### *As lessee of operating leases*

Rental expenses under operating leases are recognized as relevant asset costs or in current profit or loss on the straight-line basis over the lease term. Contingent rental is charged to current profit or loss when incurred.

#### *As lessor of operating leases*

Rental income under operating leases are recognized as profit or loss for the current period on a straight-line basis over the lease term. Contingent rental is charged to current profit or loss when incurred.

### 24. Hedge accounting

For the purpose of hedge accounting, hedges of the Group are classified as:

Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

#### *Cash flow hedges*

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while the ineffective portion is recognised immediately in profit or loss.

Amounts recognized in other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously taken to other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
Currency: RMB'000  
(English translation for reference only)

## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 25. Impairment

The Group assesses impairment of assets other than inventories, investment properties measured at fair value, deferred tax assets, financial assets and long-term equity investments under cost accounting which are not quoted in an active market and whose fair value cannot be reliably measured, using the methods described below:

The Group assesses at each balance sheet date whether there is an indication that a non-financial asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount and performs a test of impairment for the asset. For goodwill generated from business consolidation and intangible assets with indefinite useful lives, tests for impairment is performed at least annually regardless of whether there are indications of impairment. Intangible assets which are not yet ready for use are also tested annually for impairment.

Recoverable amount is the higher of the asset's fair value less costs to sell and its present value of estimated future cash flows. The Group estimates recoverable value for individual assets. When it is difficult to estimate individually, the recoverable value of the cash generating units which the asset belongs to will be estimated. The definition of cash generating units is determined on the basis of whether the cash generating units generate cash flows which are largely independent of those from other cash generating units.

Where the carrying amount of an asset or a cash generating unit exceeds its recoverable amount, the asset or cash generating unit is considered impaired and is written down to its recoverable amount. The difference between the carrying amount and recoverable amount is recognized in the current period's profit or loss and provision for impairment is made accordingly.

In connection with impairment tests for goodwill, the carrying value of goodwill arising from business combination is allocated to relevant cash generating units ("CGU") from the date of acquisition on a reasonable basis. If it is difficult to allocate such goodwill to a relevant CGU, it should be allocated to a relevant CGU group. A relevant CGU or CGU group is defined as one which can benefit from the synergies of the business combination and is not larger than the reporting segments determined by the Group.

In connection with impairment tests for CGUs or CGU groups that comprise goodwill, where indications of impairment exists in a CGU or CGU group related to goodwill, impairment tests should be performed first on CGUs or CGU groups that do not comprise goodwill and recognize impairment loss after estimating the recoverable amount. Then impairment tests on CGUs or CGU groups that comprise goodwill should be performed and the carrying value and recoverable amount should be compared. Where the recoverable amount is lower than the carrying value, the impairment loss should first be offset against the carrying value of the goodwill allocated to CGUs or CGU groups and then against assets in the CGUs or CGU groups other than goodwill in proportion to the weighting of these assets.

Previously recognised impairment losses are not reversed in subsequent periods.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 26. Employee benefits

Employee benefits represent all kinds of benefits (other than share-based payments) and other relevant expenditures incurred by the Group in exchange for service rendered by employees. During the accounting period when employees provide services, employee benefits payable is recognized as a liability. Items which expire longer than one year after the balance sheet date are measured at present value if the discounting impact is significant.

#### *Defined contribution pension scheme*

Employees of the Group participated in contribution pension scheme managed by the local government, including pension scheme, medical insurance, unemployment insurance and housing fund. The contribution costs are charged as asset cost or to current profit or loss when incurred.

#### *Defined benefits pension scheme*

The Group provides certain employees, who joined the Group before 1 January 2002, with postretirement monthly pension payments. The cost of providing these benefits under the Group's defined benefits pension scheme is actuarially determined and recognized over the employees' service period by using the projected unit credit method. The Group makes monthly pension payments to eligible retirees. The Group has not held any plan assets since the commencement of the defined benefits pension scheme, therefore it is not required to make any forecast on asset return.

### 27. Profit distribution

Cash dividend of the Company is recognized as liability after approval by the general meeting.

### 28. Related parties

A related party of a company is one who controls or jointly controls or exercises significant influence over that company or is, together with that company, under the control or joint control of another party.

### 29. Segment reporting

The Group defines its operating segments on the basis of its internal organisational structure, management requirements and internal reporting system. The reporting segments and information to be disclosed in respect of each segment are determined on the basis of the operating segments.

An operating segment is an integral part of the Group satisfying all of the following conditions:

- (1) being able to generated income and incur expenses in its day-to-day activities;
- (2) the operating results of which can be assessed by the Company's management on a regular basis in order to make decisions about resource allocation and performance assessment;
- (3) accounting information of such segment, such as financial conditions, results of operations and cash flow, can be obtained by the Group.

Two or more operating segments with similar economic characteristics and in fulfillment of certain conditions may be consolidated into one operating segment.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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 (English translation for reference only)

## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 30. Significant accounting judgements and estimates

The preparation of financial statements requires judgement and estimation of the management. Such judgement and estimation will affect the reported amounts of revenue, expenses, assets and liabilities and the disclosure of contingent liabilities as at the balance sheet date. However, the consequence arising from the uncertain nature of such estimation may result in significant adjustment to the book value of the asset or liability affected in the future.

#### *Judgements*

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the financial statements:

#### *Revenue recognition*

The Group's material revenue streams are the result of a wide range of activities, from custom design and installation over a period of time to a single delivery of equipment to a customer. The Group's networking solutions also cover a broad range of technologies and are offered on a global basis. As a result, our revenue recognition policies can differ depending on the level of customization within the solution and the contractual terms with the customer. Newer technologies within one of the Group's reporting segments may also have different revenue recognition policies, depending on, among other factors, the specific performance and acceptance criteria within the applicable contracts. Therefore, management must use significant judgement in determining how to apply the current accounting standards and interpretations, not only based on the networking solutions, but also within networking solutions based on reviewing the level of customization and contractual terms with the customer. As a result, our revenues may fluctuate from period to period based on the mix of solutions sold and the geographic regions in which they are sold.

When a customer arrangement involves multiple deliverables where the deliverables are governed by more than one authoritative standard, the Group evaluates all deliverables to determine whether they represent separate units of accounting based on the following criteria:

- 1) whether the delivered item has value to the customer on a stand-alone basis;
- 2) whether there is objective and reliable evidence of the fair value of the undelivered item(s); and
- 3) if the contract includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and is substantially in the Group's control.

The Group's determination of whether deliverables within a multiple element arrangement can be treated separately for revenue recognition purposes involves significant estimates and judgement, such as whether fair value can be established on undelivered items and/or whether delivered elements have standalone value to the customer. Changes to the Group's assessment of the accounting units in an arrangement and/or its ability to establish fair values could significantly change the timing of revenue recognition.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 30. Significant accounting judgements and estimates (continued)

#### *Judgements (continued)*

#### *Revenue recognition (continued)*

If objective and reliable evidence of fair value exists for all units of accounting in the contract, revenue is allocated to each unit of accounting or element based on relative fair values. In situations where there is objective and reliable evidence of fair value for all undelivered elements, but not for delivered elements, the residual method is used to allocate the contract consideration. Under the residual method, the amount of revenue allocated to delivered elements equals the total arrangement consideration less the aggregate fair value of any undelivered elements. Each unit of accounting is then accounted for under the applicable revenue recognition guidance. If sufficient evidence of fair value cannot be established for an undelivered element, revenue related to delivered elements is deferred until the earlier of when sufficient fair value is established and when all remaining elements have been delivered. Once there is only one remaining element to be delivered within the unit of accounting, the deferred revenue is recognized based on the revenue recognition guidance applicable to the last delivered element. For instance, where post-contract support is the last delivered element within the unit of accounting, the deferred revenue is recognized ratably over the remaining post-contract support term once postcontract support is the only undelivered element.

The Group's assessment of which revenue recognition guidance is appropriate for accounting for a deliverable also can involve significant judgement. For instance, the determination of whether software is more than incidental to hardware can impact on whether the hardware is accounted for based on software revenue recognition guidance or based on general revenue recognition guidance. This assessment could significantly impact the amount and timing of revenue recognition.

For elements related to customised network solutions and certain network build-outs, revenues are recognized under the ASBE No. 15 Construction Contract, generally using the percentage-of-completion method. In using the percentage-of-completion method, revenues are generally recorded based on a measure of the percentage of costs incurred to date on a contract relative to the estimated total expected contract costs. Profit estimates on long-term contracts are revised periodically based on changes in circumstances and any losses on contracts are recognized in the period that such losses become known. Generally, the terms of long-term contracts provide for progress billing are based on completion of certain phases of work. Contract revenues recognized, based on costs incurred towards the completion of the project, that are unbilled are accumulated in the contracts in progress account included in amount due from customers for contract works. Billings in excess of revenues recognized to date on long-term contracts are recorded as advance billings in excess of revenues recognized to date on contracts within amount due to customers for contract works. Significant judgement is often required when estimating total contract costs and progress to completion on these arrangements, as well as whether a loss is expected to be incurred on the contract. Management uses historical experience, project plans and an assessment of the risks and uncertainties inherent in the arrangement to establish these estimates. Uncertainties include implementation delays or performance issues that may or may not be within the control of the Group. Changes in these estimates could result in a material impact on revenues and net earnings.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 30. Significant accounting judgements and estimates (continued)

#### *Judgements (continued)*

##### *Revenue recognition (continued)*

Revenue for hardware that does not require significant customisation, and where any software is considered incidental, is recognized under ASBE No. 14 Revenue, revenue is recognized provided that: it is probable that the economic benefits of the income will flow to the Group; the amount can be reliably measured; the Group has transferred the principal risks and rewards of ownership to the buyer and has not retained ongoing management and effective control usually associated with ownership; and relevant costs incurred or to be incurred can be reliably measured.

For hardware, delivery is considered to have occurred upon shipment provided that the risk of loss and title have been transferred to the customer. For arrangements where the criteria for revenue recognition have not been met because legal title or the risk of loss on products was not transfer to the buyer until final payment had been received or where delivery had not occurred, revenue is deferred to a later period when title or the risk of loss passes either on delivery or on receipt of payment from the customer.

For further information on the Group's revenue recognition policies relating to our material revenue streams, please refer to Note II. 20 to the consolidated financial statements.

##### *Deferred tax liabilities arising from dividend distribution*

The Group is required to recognize deferred tax liabilities for taxable temporary differences relating to investments in certain subsidiaries, unless two conditions are met as follows: the Group is able to control the timing of the reversal of the temporary difference and such temporary difference is not likely to be reversed in the foreseeable future. The Group is of the view that it is able to fully control the timing of the reversal of the temporary difference arising from dividend distribution of the subsidiary and that the subsidiary will not make any profit distribution in the foreseeable future. Therefore, the Group has not recognised any deferred income tax liability. For details please refer to Note V.17.

##### *Derecognition of financial assets*

Where the Group has transferred the right to receive cash flow arising from an asset but has not transferred or has retained substantially all risks and rewards associated with such asset, or has not transferred the controlling right in such asset, such asset shall be recognized and accounted for so long as the Group continues to be involved in such asset. If the Group has not transferred or has retained substantially all risks and rewards associated with the asset or transferred the controlling right in the asset, the exercise of significant judgment is often required, and estimations need to be made as to the extent of the Group's continued involvement in the asset.

##### *Estimation uncertainty*

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within subsequent financial years, are discussed below.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 30. Significant accounting judgements and estimates (continued)

#### *Estimation uncertainty (continued)*

##### *Impairment of fixed assets, construction in progress and intangible assets*

The Group assesses at each balance sheet date whether there is an indication that fixed assets, construction in progress and intangible assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount and performs a test of impairment for the asset. The recoverable amount is measured at the net amount of the fair value of the asset less disposal costs or the present value of the estimated future cash flow of the asset, whichever is higher. This requires an estimate of the expected future cash flows from the asset or the cash-generating unit to which the asset was allocated and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

An impairment loss is recognized when the carrying amount of fixed assets, construction in progress and intangible assets exceeds the recoverable amount. The carrying amount is written down to the recoverable amount and the write-down is charged to current profit or loss, while corresponding provision for asset impairment is also made.

##### *Impairment of financial assets*

The Group determines whether financial assets are impaired by estimating the future cash flow from the financial assets. An impairment loss is recognized only if the carrying amount of an asset exceeds the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, taking into account the value of the related collateral. Where the actual future cash flows and less than expected, an impairment loss may arise.

##### *Equity settled share expense*

The estimated cost of the share incentive scheme is recognized in income statements based on estimation of various assumptions, including that in relation to the turnover rate of respective participants under the scheme. In situation that the actual turnover rate is less than the management estimation, such cost would be higher.

##### *Depreciation and amortization*

The Group depreciates items of fixed assets and amortises items of intangible assets on the straight-line basis over their estimated useful lives, and after taking into account their estimated residual value, commencing from the date the items of fixed assets are placed into productive use. The estimated useful lives and dates that the Group places the items of fixed assets into productive use reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's fixed assets and intangible assets.

##### *Deferred development costs*

In determining the amount of capitalization, the management must make assumptions concerning the expected future cash flow, applicable discount rate and expected beneficial period.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
Currency: RMB'000  
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## II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 30. Significant accounting judgements and estimates (continued)

#### *Estimation uncertainty (continued)*

##### *Deferred tax assets*

Deferred tax assets are recognized for all unused tax losses, to the extent that it is likely that taxable profit will be available to utilize these unused tax losses. Significant judgments are needed from management to estimate the timing and amount of taxable profit in the future, with tax planning strategies, to determine the amount of the deferred tax assets that should be recognized.

##### *Provision for inventory impairment*

The impairment of inventory to its net realizable value is based on the marketability and net realizable value of the inventory. The determination of the impairment value requires the acquisition of conclusive evidence by the management, who should also take into account factors such as the purpose of stocking the inventory and the impact of post-balance sheet date events before making judgments and estimates. The difference between the actual outcome and the original estimates shall affect the book value of the inventory and charge or reversal of impairment provision for the period during which the estimates were revised.

##### *Fair value estimates of investment properties*

The best evidence to the fair value of an investment property is the prevailing prices of similar leases and other contracts in an active market. In the absence of relevant information, the management will determine the relevant amount within a reasonable range of fair value estimates. The management will make its judgement on the basis of cash flow forecasts calculated using reliable estimates of future cash flow and a market valuation discounted rate that reflects uncertainties in current cash flow amounts and timing, taking into account current lease contracts and market rental levels for similar properties in an active market. Major assumptions adopted by the Group in estimating the fair value include market rental level for similar properties at the same location and under the same conditions, discounted rate, vacancy rate, expected future market rental level and maintenance costs. The book value of investment properties as at 30 June 2012 was RMB1,595,977,000 (31 December 2011: Nil).



# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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## III. TAXATION

### 1. Principal tax items and tax rates

Value-added tax	—	Payable on income generated from domestic sales of products and equipment repair services at a tax rate of 17% after deducting the current balance of tax credit available for offsetting.
Business tax	—	In accordance with relevant PRC tax regulations, business tax was payable by the Group at tax rates of 3% and 5%, respectively, on its sales income and service income which were subject to business tax.
City maintenance and construction tax	—	In accordance with relevant PRC tax regulations and local regulations, city maintenance and construction tax was payable according to rates stipulated by the State based on individual situations of the branches and subsidiaries of the Group.
Education surcharge	—	In accordance with relevant PRC tax regulations and local regulations, education surcharge was payable according to rates stipulated by the State based on individual situations of the branches and subsidiaries of the Group.
Individual income tax	—	In accordance with relevant PRC tax regulations, the Group withheld income tax from its salary payments to employees based on progressive tax rates.
Overseas tax	—	Overseas taxes were payable in accordance with tax laws of various countries and regions.
Enterprise income tax	—	In accordance with the Law on Enterprise Income Tax promulgated on 1 January 2008, enterprise income tax was payable by the Group on its taxable income

### 2. Tax concession and approval documents

The Company is subject to an enterprise income tax rate of 15% for the years from 2011–2013 as a national-grade hi-tech enterprise incorporated in Shenzhen. Income tax rates for certain domestic subsidiaries of the Group are disclosed as follows:

Xi'an Zhongxing New Software Company Limited, a software enterprise established in December 2009, has been entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Cai Shui [2008] No. 1. The current year is its fourth profitable year entitled to a half reduction in 25% enterprise income tax.

Nanjing Zhongxingxin Software Company Limited, a software enterprise established in December 2009, has been entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Cai Shui [2008] No. 1. The current year is its third profitable year entitled to a half reduction in 25% enterprise income tax.

Shenzhen Zhongxing ICT Company Limited, a software enterprise established in September 2009, has been entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Shen Guo Shui Nan Jian Mian Bei An (2009) No. 383. The current year is its fourth profitable year entitled to a half reduction in 25% enterprise income tax.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
Currency: RMB'000  
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## III. TAXATION (CONTINUED)

### 2. Tax concession and approval documents (continued)

Shenzhen Zhongxing Software Company Limited is a national-grade hi-tech enterprise which has been accredited as an Important Software Enterprise under the National Planning Layout for the years from 2009 to 2010. It is currently under application for Important Software Enterprise under the 2011–2012 National Planning Layout. The applicable enterprise income tax rate for the current year is 10%.

Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited is subject to an enterprise income tax rate of 15% from 2011–2013 as a national-grade hi-tech enterprise.

Shenzhen Zhongxing Mobile Technology Company Limited is subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise registered in Shenzhen Nanshan Hitech Industrial Park.

ZTE Microelectronics Technology Company Limited is subject to an enterprise income tax rate of 15% for the years from 2011 to 2013 as a national-grade hi-tech enterprise.

Shenzhen Lead Communication Equipment Company Limited is subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise.

Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited is subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise registered in Shanghai Pudong New Area.

Shanghai Zhongxing Software Company Limited is subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise.

Nanjing Zhongxing Software Company Limited is subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise.

ZTEsoft Technology Company Limited is a national-grade hi-tech enterprise which has been accredited as an Important Software Enterprise under the National Planning Layout for the years from 2009 to 2010. It is currently under application for Important Software Enterprise under the 2011–2012 National Planning Layout. The applicable enterprise income tax rate for the period is 10%.

Xi'an Zhongxing Software Company Limited is subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise.

Xi'an Zhongxing Jing Cheng Communication Company Limited is subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise.

Wuxi Zhongxing Optoelectronics Technologies Company Limited was registered at Wuxi State's Hi-tech Industrial Development Zone and is subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise.

# Notes to Financial Statements

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## IV. SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENT

### 1. Subsidiaries

Particulars of the principal subsidiaries of the Company are as below:

Name of subsidiary	Place of registration	Legal representative	Nature of business	Registered capital	Scope of business	Organisation number	Effective capital contribution at year-end	Balance of other items effectively representing net investment	Percentage of shareholding (%)		Percentage of voting rights (%)	Whether statements are consolidated	Non-controlling interests
									direct	indirect			
Shenzhen Zhongxing Software Company Limited	Shenzhen	Hou Weigui	Manufacturing	RMB52.08 million	Software development	75250847-2	RMB51.08 million	–	74%	24%	98%	Yes	37,565
ZTE (H.K.) Limited	Hong Kong	Nil	Information technology	HKD500 million	General services	Nil	HKD500 million	–	100%	–	100%	Yes	–
Shenzhen Zhongxing Telecom Technology & Service Company Limited	Shenzhen	Shi Lirong	Telecommunications services	RMB50 million	Communications engineering and technical services	76199710-8	RMB50 million	–	90%	9%	100%	Yes	15,081
ZTE Kangxun Telecom Company Limited	Shenzhen	Zhang Taifeng	Telecommunications and related equipment manufacturing	RMB1.95 billion	Production of electronic products and accessories	279285671	RMB1.755 billion	–	90%	–	90%	Yes	221,065
ZTEsoft Technology Company Limited	Nanjing	Chen Jie	Manufacturing	RMB202 million	Systems project outsourcing	74537900-0	RMB152 million	–	75%	–	75%	Yes	238,317
Shenzhen Changfei Investment Company Limited	Shenzhen	Pang Ran	Investment	RMB30 million	Industrial investment	75860475-6	RMB15.30 million	–	51%	–	51%	Yes	457,500
Shenzhen Zhongxing Mobile Technology Company Limited	Shenzhen	He Shiyou	Telecommunications and related equipment manufacturing	RMB39.58 million	Production and sales of telecommunications products	73205874-2	RMB31.67 million	–	80%	–	80%	Yes	161,350
Wuxi Zhongxing Optoelectronics Technologies Company Limited	Wuxi	Li Su	Telecommunications and related equipment manufacturing	RMB10 million	Development and sales of opto electronic products	71869554-2	RMB6.50 million	–	65%	–	65%	Yes	44,614
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited	Shanghai	Zeng Xuezhong	Telecommunications services	RMB10 million	Production and sales of telecommunications products	76223980-0	RMB5.10 million	–	51%	–	51%	Yes	46,103
Xi'an Zhongxing Software Company Limited	Xi'an	Hou Weigui	Telecommunications and related equipment manufacturing	RMB600 million	Software development for telecommunications services	68385252-7	RMB600 million	–	100%	–	100%	Yes	–
ZTE (Hangzhou) Company Limited	Hangzhou	He Shiyou	Telecommunications and related equipment manufacturing	RMB100 million	Telecommunications and related equipment manufacturing	68908984-1	RMB100 million	–	100%	–	100%	Yes	–
Shenzhen Zhongxing ICT Company Limited	Shenzhen	Tian Wenguo	Telecommunications and related equipment manufacturing	RMB30 million	Design and sales of corporate management hard/software products	68537795-0	RMB24 million	–	80%	–	80%	Yes	53,956

All of the principal subsidiaries listed above are subsidiaries in which the Company held a majority interest, and are companies with limited liability.

# Notes to Financial Statements

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## IV. SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

### 2. Changes in the scope of consolidation

Nine subsidiaries were consolidated during the period in line with the Group's business requirements. New tier-two subsidiaries established during the period included 深圳市中興通訊節能服務有限責任公司, 新加坡中興軟創軟件有限公司, 深圳小蜜蜂旅行社有限公司, Artvision technologies Inc., ZTE International Limited, Zhongxing Telecom Service Zambia Limited and ZTE RDC S.P.R.L, ZTE COLOMBIA S A; the new tier-three subsidiary established was ZTEJC NIGERIA LIMITED.

Four subsidiaries were deconsolidated during the period. As required by the Group's strategic development, Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited (following the equity transfer of the company and its subsidiaries) and Yangzhou Zhongxing Mobile Telecom Company Limited (following its liquidation) were no longer included the consolidated financial statements for the period.

Other than the aforesaid subsidiaries which were established, disposed of or declared bankrupt, the scope of consolidation was consistent with that of the previous year.

### 3. Exchange rates for major accounting items of the Group's overseas operating entities

	Average rate		Closing rate	
	Six months ended 30 June 2012	Six months ended 30 June 2011	30 June 2012	31 December 2011
USD	6.3129	6.5472	6.3249	6.3009
EUR	8.0168	9.0839	7.8710	8.1625
HKD	0.8130	0.8413	0.8152	0.8107
GBP	9.7643	10.3084	9.8169	9.7116
INR	0.1153	0.1454	0.1123	0.1183
BRL	3.2558	4.0400	3.1296	3.3821
PKR	0.0686	0.0762	0.0671	0.0702
IDR	0.0007	0.0007	0.0007	0.0007
SAR	1.6835	1.7459	1.6866	1.6804
DZD	0.0817	0.0883	0.0800	0.0835
JPY	0.0804	0.0808	0.0796	0.0811
RUR	0.2068	0.2237	0.1911	0.1966
PLN	1.8539	2.2796	1.8666	1.8413

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Cash

		30 June 2012			31 December 2011		
		Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Cash	RMB	102	1.0000	102	317	1.0000	317
	USD	1,210	6.3249	7,651	1,216	6.3009	7,662
	SAR	318	1.6866	537	2,461	1.6804	4,135
	DZD	2,400	0.0800	192	1,844	0.0835	154
	INR	481	0.1123	54	1,251	0.1183	148
	THB	291	0.1996	58	556	0.1996	111
	PLN	503	1.8666	938	642	1.8413	1,182
	KZT	15,212	0.0424	645	18,800	0.0433	814
	Others			172			1,995
	Sub-total			10,349			16,518

		30 June 2012			31 December 2011		
		Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Bank deposit	RMB	11,048,357	1.0000	11,048,357	11,739,409	1.0000	11,739,409
	USD	979,112	6.3249	6,192,783	914,860	6.3009	5,764,441
	HKD	73,825	0.8152	60,182	82,444	0.8107	66,837
	BRL	119,208	3.1296	373,072	48,864	3.3821	165,263
	PKR	742,563	0.0671	49,826	882,764	0.0702	61,970
	EGP	15,659	1.0437	16,343	34,974	1.0476	36,639
	IDR	199,297,495	0.0007	133,374	98,347,143	0.0007	68,843
	EUR	189,004	7.8710	1,487,654	170,939	8.1625	1,395,290
	DZD	325,963	0.0800	26,077	591,653	0.0835	49,403
	MYR	69,150	1.9830	137,125	45,623	1.9866	90,635
	ETB	51,249	0.3532	18,101	119,783	0.3694	44,248
	CAD	7,115	6.2064	44,157	7,454	6.1794	46,061
	GBP	11,815	9.8169	115,989	3,037	9.7116	29,494
	THB	1,167,665	0.1996	233,066	468,597	0.1996	93,532
	RUR	588,388	0.1911	112,441	628,642	0.1966	123,591
	Others			525,529			954,915
	Sub-total			20,574,076			20,730,571

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 1. Cash (continued)

		30 June 2012			31 December 2011		
		Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Other cash	RMB	650,761	1.0000	650,761	523,646	1.0000	523,646
	USD	58,196	6.3249	368,086	31,451	6.3009	198,170
	Others			83,764			3,062
	Sub-total			1,102,611			724,878
	Total			21,687,036			21,471,967

As at 30 June 2012, the Group's cash subject to ownership restriction amounted to RMB1,102,611,000 (31 December 2011: RMB724,878,000), including acceptance bill deposits of RMB429,562,000 (31 December 2011: RMB380,083,000), letter of credit deposits of RMB24,304,000 (31 December 2011: RMB1,310,000), guarantee letter deposits of RMB309,007,000 (31 December 2011: RMB78,088,000), deposit provision of RMB125,891,000 (31 December 2011: RMB44,464,000) and risk compensation fund to be released within one year of RMB213,847,000 (31 December 2011: RMB220,933,000).

Under the loan agreements or factored trade receivables agreements between the Group and certain domestic banks, provisions are being made for a risk compensation fund at a mutually determined percentage based on the risk profile of the facilities concerned. The risk compensation fund shall be released on a pro-rata basis in respect of the facilities if there is no overdue principal or interest payment at the agreed final payment date, or when the principal and interest of the banking facilities have been fully settled. As at 30 June 2012, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB1,159,054,000 (31 December 2011: RMB1,170,599,000). Risk compensation fund to be released within one year amounting to RMB213,847,000 (31 December 2011: RMB220,933,000) was accounted for as cash subject to ownership restriction. Risk compensation fund to be released after one year amounting to RMB945,207,000 (31 December 2011: RMB949,666,000) was accounted for as other non-current assets.

As at 30 June 2012, the Group's overseas currency deposits amounted to RMB5,763,413,000 (31 December 2011: RMB3,547,475,000).

Current bank deposits earn interest income based on current deposit interest rate. The period for short-term time deposits varies from 7 days to 3 months. The short-term time deposits, subject to the Group's cash needs, earn interest income based on corresponding time deposits interest rate. Time deposits with a term of over three months amounting to RMB40,965,000 (31 December 2011: RMB85,000,000) were not included in cash and cash equivalents.

# Notes to Financial Statements

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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 2. Trading financial assets/liabilities

#### Trading financial assets

	30 June 2012	31 December 2011
Financial assets at fair value through profit or loss	63,486	87,180
Derivative financial assets	28,021	8,438
	<b>91,507</b>	<b>95,618</b>

#### Trading financial liabilities

	30 June 2012	31 December 2011
Derivative financial liabilities	29,687	2,433
Hedge instruments — current portion	2,531	2,872
	<b>32,218</b>	<b>5,305</b>

### 3. Bills receivable

	30 June 2012	31 December 2011
Commercial acceptance bills	1,037,702	391,943
Bank acceptance bills	2,949,937	2,831,586
	<b>3,987,639</b>	<b>3,223,529</b>

As at 30 June 2012, there was no bill which had been reclassified as trade receivables as a result of the issuers' default (31 December 2011: Nil).

As at 30 June 2012, commercial acceptance bills with a book value of RMB1,518,966,000 were discounted for short-term loans (31 December 2011: RMB78,804,000). As at 30 June 2012, bank acceptance bills with a book value of RMB255,952,000 were discounted for short-term loans (31 December 2011: RMB932,165,000). As at 30 June 2012, no bills receivable were pledged as security for short term loans (31 December 2011: RMB4,410,000).

As at 30 June 2012, bills endorsed to other parties but not yet due amounted to RMB7,989,676,000 (31 December 2011: RMB7,052,623,000).

As at 30 June 2012, RMB1,700,000 (31 December 2011: RMB3,260,000) in the balance was amounted owed from shareholders or related parties holding 5% or more in the voting shares of the Company, accounting for 0.04% (31 December 2011: 0.1%) of the total amount of bills receivable. Please refer to Note VI. "The relationships and transactions with related parties".

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(Prepared under PRC ASBEs)  
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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 4. Trade receivables

Trade receivables arising from communications systems construction works and the provision of labour services are recognised according to the payment periods stipulated in contracts. The credit period for trade receivables arising in the sales of goods normally ranges from 0–90 days, and may be extended to a maximum of 1 year depending on the credit standing of the customer. Trade receivables are interest-free.

	30 June 2012			31 December 2011		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
RMB	10,174,726	1.0000	10,174,726	9,217,277	1.0000	9,217,277
USD	1,182,241	6.3249	7,477,556	1,187,280	6.3009	7,480,933
EUR	266,933	7.8710	2,101,030	273,298	8.1625	2,230,795
BRL	223,243	3.1296	698,661	371,333	3.3821	1,255,885
THB	1,327,149	0.1996	264,899	2,196,521	0.1996	438,426
INR	6,172,698	0.1123	693,194	1,409,785	0.1183	166,778
Others			2,390,878			3,083,331
			<b>23,800,944</b>			<b>23,873,425</b>

Aging analysis of trade receivables was as follows:

	30 June 2012	31 December 2011
Within 1 year	22,674,946	22,848,847
1 to 2 years	1,975,806	1,791,118
2 to 3 years	672,421	723,468
Over 3 years	1,263,969	1,110,421
	<b>26,587,142</b>	<b>26,473,854</b>
Less: bad debt provisions for trade receivables	2,786,198	2,600,429
	<b>23,800,944</b>	<b>23,873,425</b>



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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 4. Trade receivables (continued)

Please refer to Note V.18 for details of movements in bad debt provision for trade receivables for the period.

	30 June 2012				31 December 2011			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage of charge (%)	Amount	Percentage (%)	Amount	Percentage of charge (%)
Individually significant and for which bad debt provision has been separately made	596,925	2	596,925	100	591,722	2	591,722	100
For which bad debt provision has been collectively made								
0 to 6 months	19,223,340	72	—	—	20,303,011	77	—	—
7 to 12 months	3,377,841	13	204,261	6	2,462,395	10	165,875	7
13 to 18 months	1,224,986	5	299,402	24	1,111,816	4	308,769	28
19 to 24 months	684,450	3	293,301	43	626,076	2	255,038	41
2 to 3 years	604,515	2	517,224	86	656,806	2	556,997	85
Over 3 years	875,085	3	875,085	100	722,028	3	722,028	100
	<u>25,990,217</u>	<u>98</u>	<u>2,189,273</u>	<u>8</u>	<u>25,882,132</u>	<u>98</u>	<u>2,008,707</u>	<u>8</u>
	<u>26,587,142</u>	<u>100</u>	<u>2,786,198</u>	<u>10</u>	<u>26,473,854</u>	<u>100</u>	<u>2,600,429</u>	<u>10</u>

As at 30 June 2012, bad debt provisions for trade receivables which were individually significant or which were not individually significant but were nevertheless individually tested were as follows:

	Book balance	Bad debt	Percentage of charge	Reason
Overseas carriers 1	270,297	270,297	100%	Debtor running into serious financial difficulties
Overseas carriers 2	165,275	165,275	100%	Debtor running into serious financial difficulties
Overseas carriers 3	78,551	78,551	100%	Debtor running into serious financial difficulties
Others	<u>82,802</u>	<u>82,802</u>	<u>100%</u>	<u>Debtor running into serious financial difficulties</u>
	<u>596,925</u>	<u>596,925</u>		

There was no write-back or recovery of individually significant trade receivables, for which individual provision for bad debts had been made as at 30 June 2012 (31 December 2011: Nil).

As at 30 June 2012, trade receivables from top five accounts were as follows:

Customer	Amount	As a percentage of total trade receivables
Customer 1	3,100,224	11.66%
Customer 2	3,014,972	11.34%
Customer 3	2,815,291	10.59%
Customer 4	740,175	2.79%
Customer 5	<u>176,018</u>	<u>0.66%</u>
Total	<u>9,846,680</u>	<u>37.04%</u>

The above trade receivables from top five accounts represent amounts receivable from third-party customers of the Group which had been overdue for 0 to 36 months.

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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 4. Trade receivables (continued)

As at 30 June 2012, trade receivables included amounts due from shareholders holding 5% or more in the voting shares or related parties amounting to RMB98,432,000 (31 December 2011: RMB114,292,000), accounting for 0.37% (31 December 2011: 0.43%) of the total amount of trade receivables. Please refer to Note VI. "The relationships and transactions with related parties". No bad debt provision was being made in respect of the aforesaid due from shareholders holding 5% or more in the voting shares or related parties.

Transfer of trade receivables that did not qualify for derecognition was separately classified as "Factored trade receivables" and "Bank advances on factored trade receivables" amounting to RMB2,176,989,000 and RMB2,176,989,000 respectively (31 December 2011: RMB3,623,096,000 and RMB3,789,731,000).

As at 30 June 2012, trade receivables of the Group with a book value of RMB75,039,000 (31 December 2011: RMB1,105,174,000) were subject to ownership restriction as they were pledged as security for short-term loans.

### 5. Prepayments

Aging analysis of prepayments was as follows:

	30 June 2012		31 December 2011	
	Book balance	Percentage (%)	Book balance	Percentage (%)
Within 1 year	561,484	100%	494,200	100%

As at 30 June 2012, prepayments to top five accounts were as follows:

Supplier	Amount	As a percentage of total prepayments
Supplier 1	28,202	5.02%
Supplier 2	27,370	4.88%
Supplier 3	24,732	4.41%
Supplier 4	16,020	2.85%
Supplier 5	14,995	2.67%
Total	111,319	19.83%

The above prepayments from top five accounts represent prepayments from suppliers independent from the Group which had been outstanding for 0 to 6 months. The prepayment accounts had yet to be closed as the goods concerned had yet to go through the inspection and acceptance procedure.

As at 30 June 2012, RMB1,660,000 (31 December 2011: RMB1,519,000) in the balance was prepayments made to shareholders or related parties holding 5% or more in the voting shares. Please refer to Note VI. "The relationships and transactions with related parties".

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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 6. Other receivables

Aging analysis of other receivables was as follows:

	30 June 2012	31 December 2011
Within 1 year	1,339,067	1,905,644
1 to 2 years	374,507	149,446
2 to 3 years	49,287	42,860
Over 3 years	32,961	20,750
	<b>1,795,822</b>	<b>2,118,700</b>
Less: Bad debt provision for other receivables	—	—
	<b>1,795,822</b>	<b>2,118,700</b>

As at 30 June 2012, other receivables from top five accounts were as follows:

Debtor parties	Amount	As a percentage of total other receivables
Third-party 1	84,522	4.71%
Third-party 2	70,719	3.94%
Third-party 3	51,087	2.84%
Third-party 4	37,479	2.09%
Third-party 5	16,834	0.93%
Total	<b>260,641</b>	<b>14.51%</b>

The above other receivables from top five accounts represent other receivables from third-party entities independent from the Group which had been overdue for 0 to 36 months.

As at 30 June 2012, other receivables in the balance from shareholders or related parties holding 5% or more in the voting shares amounted to RMB25,174,000 (31 December 2011: Nil). Please refer to Note VI. "The relationships and transactions with related parties".

### 7. Inventories

	30 June 2012			31 December 2011		
	Book balance	Provision for impairment	Carrying value	Book balance	Provision for impairment	Carrying value
Raw materials	4,453,869	385,292	4,068,577	4,166,509	290,318	3,876,191
Materials under sub- contract processing	93,118	5,861	87,257	114,311	2,943	111,368
Work-in-progress	1,236,919	10,735	1,226,184	1,591,911	21,231	1,570,680
Finished goods	3,134,601	234,616	2,899,985	3,631,475	251,603	3,379,872
Dispatch of goods	5,449,256	675,799	4,773,457	6,558,308	508,040	6,050,268
	<b>14,367,763</b>	<b>1,312,303</b>	<b>13,055,460</b>	<b>16,062,514</b>	<b>1,074,135</b>	<b>14,988,379</b>

Please refer to Note V.18 for details of movements in the provision for impairment of inventory during the period.

# Notes to Financial Statements

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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 8. Amount due from/to customers for contract works

	30 June 2012	31 December 2011
Amount due from customers for contract works	16,635,456	14,588,455
Amount due to customers for contract works	(3,003,622)	(3,068,804)
	<b>13,631,834</b>	11,519,651
Contract costs incurred plus recognized profit (losses) to date	43,621,552	42,480,623
Less: Estimated loss	182,607	160,242
Progress billing	29,807,111	30,800,730
	<b>13,631,834</b>	11,519,651

Where estimated total contract costs exceed estimated total contract revenue, provision for estimated losses on the contract measured at the difference between the amount in excess and recognized losses on the contract should be made and charged to current profit or loss.

### 9. Available-for-sale financial assets

	30 June 2012	31 December 2011
Available-for-sale equity instruments	944,905	819,972

### 10. Long-term trade receivables

	30 June 2012	31 December 2011
Installment payments for the provision of telecommunication system construction projects	1,296,878	945,923
Less: Bad debt provision for long-term trade receivables	82,258	81,649
	<b>1,214,620</b>	864,274

Please refer to Note V.18 for details of movements in bad debt provision for long-term trade receivables for the period.

Transfer of trade receivables not qualified for derecognition is separately reflected in “factored longterm trade receivables” and “Bank advances on factored long-term trade receivables”. The amount was RMB4,336,995,000 (31 December 2011: RMB4,156,083,000).

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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 11. Investments in jointly-controlled entities and associates

30 June 2012

	Type of enterprise	Place of registration	Legal representative	Nature of business	Registered capital	Entity Code
<b>Jointly-controlled entities</b>						
Bestel Communications Ltd.	Company with limited liability	Republic of Cyprus	Wei Zaisheng	Information technology	CYP600,000	Nil
普興移動通訊設備有限公司	Company with limited liability	China	Xu Qian	R&D, production and sales of communications equipment	RMB128,500,000	79241148-0
<b>Associates</b>						
Shenzhen Zhongxing Xinyu FPC Company Limited	Company with limited liability	China	Zhang Taifeng	Machinery equipment	RMB22,000,000	75252829-7
Shenzhen Fudekang Electronics Company Limited	Company with limited liability	China	Wang Honghai	Wholesaling of machinery and electronic equipment	RMB6,000,000	78924272-7
KAZNURTEL Limited Liability Company	Company with limited liability	Kazakhstan	Khairushev Askar	Manufacturing of computers and related equipment	USD3,000,000	Nil
Wuxi Kaier Technology Company Limited	Company with limited liability	China	Li Su	Machinery equipment	RMB11,332,729	76828981-7
Shenzhen Weigao Semiconductor Company Limited	Company with limited liability	China	Leng Qiming	Machinery equipment	RMB10,000,000	76346680-2
Shenzhen Decang Technology Company Limited	Company with limited liability	China	Wu Jun	Machinery equipment	RMB6,000,000	77162861-3
Shenzhen Jufei Optoelectronics Co., Ltd.	Company limited by shares	China	Xing Qibin	Machinery equipment	RMB80,000,000	77987106-0
Shenzhen Smart Electronic Company Limited	Company with limited liability	China	Chai Zhiqiang	Machinery equipment	HKD30,000,000	77412852-6
北京中鼎盛安科技有限公司	Company with limited liability	China	Li Weixing	Computer application services	RMB4,000,000	67574463-0
思卓中興(杭州)科技有限公司	Company with limited liability	China	Ding Haomin	Sales and R&D of communications equipment	USD7,000,000	67843164-8
上海泰捷通信技術有限公司	Company with limited liability	China	Wang Jianrong	Communications products and related services	RMB10,000,000	68734538-9
上海中興群力信息科技有限公司	Company with limited liability	China	Yang Ming	Manufacturing of computers and related equipment	RMB5,000,000	69727154-7
Zhongxing Energy Company Limited	Company with limited liability	China	Hou Weigui	Energy	RMB1,290,000,000	67055270-1
廣州市鴻昌隆實業有限公司	Company with limited liability	China	Jiang Yongjun	Sales, processing and computer applications	RMB1,800,000	61869998-4
深圳市偉文電氣有限公司	Company with limited liability	China	Zhu Weimin	Manufacturing and sales of communications related equipment	RMB500,000	69042472-3
ZTE Software Technology (Nanchang) Company Limited	Company with limited liability	China	Hong Bo	Computer application services	RMB15,000,000	77585307-6
上海與德通訊技術有限公司	Company with limited liability	China	Huang Yazhen	Communications products and related services	RMB3,000,000	56310423-3
Nanjing Piaoxun Network Technology Company Limited	Company with limited liability	China	Zheng Weijie	Computer Application Services	RMB870,000	55886577-5
上海歡流傳媒有限公司	Company with limited liability	China	Zhong Dazhong	Advertising, Internet, communications, export and import	RMB5,000,000	58213499-9
Shenzhen Yuanxing Technology Co., Ltd.	Company with limited liability	China	Wu Yihai	Computer application services	RMB10,000,000	77030180-3
Telecom Innovations	Company with limited liability	Uzbekistan	Aliev F.A.	Sales and manufacturing of communications equipment	USD2,875,347.3	Nil
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	Company with limited liability	China	Zeng Li	Hotel management services	RMB30,000,000	69252850-X

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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 11. Investments in jointly-controlled entities and associates (continued)

30 June 2012

	Total Assets Closing balance	Total liabilities Closing balance	Total net assets Closing balance	Operating Revenue Amount for the period	Net Profit Amount for the period
<b>Jointly-controlled entities</b>					
Bestel Communications Ltd. 普興移動通訊設備有限公司	4,606 250,848	96 219,364	4,510 31,484	— 97,047	— (1,787)
<b>Associates</b>					
Shenzhen Zhongxing Xinyu FPC Company Limited	300,307	238,268	62,039	165,020	5,927
Shenzhen Fudekang Electronics Company Limited	66,304	52,846	13,459	65,946	760
KAZNURTEL Limited Liability Company	7,164	2,109	5,055	—	—
Wuxi Kaier Technology Company Limited	199,636	152,352	47,285	141,009	3,164
Shenzhen Weigao Semiconductor Company Limited	49,389	36,065	13,324	31,660	177
Shenzhen Decang Technology Company Limited	299,779	226,655	73,124	208,911	8,255
Shenzhen Jufei Optoelectronics Co., Ltd.	940,319	156,838	783,481	209,339	45,649
Shenzhen Smart Electronics Company Limited	43,109	20,499	22,610	5,196	(3,433)
北京中鼎盛安科技有限公司	972	703	270	877	(323)
思卓中興（杭州）科技有限公司	40,727	159	40,568	—	261
上海泰捷通信技術有限公司	67,303	44,900	22,403	37,985	5,255
上海中興群力信息科技有限公 司	66,319	16,142	50,177	23,750	960
Zhongxing Energy Company Limited	1,950,094	879,125	1,070,969	11,176	(87,324)
廣州市鴻昌隆實業有限公司	5,451	4,170	1,281	4,049	(80)
深圳市偉文電氣有限公司	993	622	372	—	—
ZTE Software Technology (Nanchang) Company Limited	30,239	101,303	(71,065)	11,426	(4,949)
上海與德通訊技術有限公司	5,994	3,983	2,011	9,157	309
Nanjing Piaoxun Network Technology Company Limited	113	114	(1)	60	(101)
上海歡流傳媒有限公司	2,404	31	2,373	1,913	(994)
Shenzhen Yuanxing Technology Co., Ltd.	20,190	6,811	13,379	10,266	(379)
Telecom Innovations	52	34	18	9	2
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	73,935	43,182	30,753	18,035	1,040

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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 11. Investments in jointly-controlled entities and associates (continued)

31 December 2011

	Type of enterprise	Place of registration	Legal representative	Nature of business	Registered capital	Entity Code
<b>Jointly-controlled entities</b>						
Bestel Communications Ltd.	Company with limited liability	Republic of Cyprus	Wei Zaisheng	Information technology	CYP600,000	Nil
普興移動通訊設備有限公司	Company with limited liability	China	Xu Qian	R&D, production and sales of communications equipment	RMB128,500,000	79241148-0
<b>Associates</b>						
Shenzhen Zhongxing Xinyu FPC Company Limited	Company with limited liability	China	Zhang Taifeng	Machinery equipment	RMB22,000,000	75252829-7
Shenzhen Fudekang Electronics Company Limited	Company with limited liability	China	Wang Honghai	Wholesaling of machinery and electronic equipment	RMB6,000,000	78924272-7
KAZNURTEL Limited Liability Company	Company with limited liability	Kazakhstan	Khairushev Askar	Manufacturing of computers and related equipment	USD3,000,000	Nil
Wuxi Kaier Technology Company Limited	Company with limited liability	China	Li Su	Machinery equipment	RMB11,332,729	76828981-7
Shenzhen Weigao Semiconductor Company Limited	Company with limited liability	China	Leng Qiming	Machinery equipment	RMB10,000,000	76346680-2
Shenzhen Decang Technology Company Limited	Company with limited liability	China	Wu Jun	Machinery equipment	RMB2,500,000	77162861-3
Shenzhen Jufei Optoelectronics Co., Ltd.	Company limited by shares	China	Xing Qibin	Machinery equipment	RMB59,540,000	77987106-0
Shenzhen Smart Electronics Company Limited	Company with limited liability	China	Chai Zhiqiang	Machinery equipment	HKD30,000,000	77412852-6
北京中鼎盛安科技有限公司	Company with limited liability	China	Li Weixing	Computer application services	RMB4,000,000	67574463-0
思卓中興(杭州)科技有限公司	Company with limited liability	China	Ding Haomin	Sales and R&D of communications equipment	USD7,000,000	67843164-8
上海泰捷通信技術有限公司	Company with limited liability	China	Wang Jianrong	Communications products and related services	RMB10,000,000	68734538-9
上海中興群力信息科技有限公司	Company with limited liability	China	Yang Ming	Manufacturing of computers and related equipment	RMB5,000,000	69727154-7
Zhongxing Energy Company Limited	Company with limited liability	China	Hou Weigui	Energy	RMB1,290,000,000	67055270-1
廣州市鴻昌隆實業有限公司	Company with limited liability	China	Jiang Yongjun	Sales, processing and computer Applications	RMB1,800,000	61869998-4
深圳市偉文電氣有限公司	Company with limited liability	China	Zhu Weimin	Manufacturing and sales of communications related equipment	RMB500,000	69042472-3
ZTE Software Technology (Nanchang) Company Limited	Company with limited liability	China	Hong Bo	Computer application services	RMB15,000,000	77585307-6
上海與德通訊技術有限公司	Company with limited liability	China	Huang Yazhen	communications industry and related businesses	RMB3,000,000	56310423-3
Nanjing Piaoxun Network Technology Company Limited	Company with limited liability	China	Zheng Weijie	Computer Application Services	RMB870,000	55886577-5
上海歡流傳媒有限公司	Company with limited liability	China	Zhong Dazhong	Advertising, Internet, communications, export and import	RMB5,000,000	58213499-9
Shenzhen Yuanxing Technology Co., Ltd.	Company with limited liability	China	Wu Yihai	Computer application services	RMB10,000,000	77030180-3
Telecom Innovations	Company with limited liability	Uzbekistan	Aliev F.A.	Sales and manufacturing of communications equipment	USD 2,875,347.3	Nil

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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 11. Investments in jointly-controlled entities and associates (continued)

31 December 2011

	Total Assets Closing balance	Total liabilities Closing balance	Total net assets Closing balance	Operating Revenue Amount for the period	Net Profit Amount for the period
<b>Jointly-controlled entities</b>					
Bestel Communications Ltd.	4,606	96	4,510	—	—
普興移動通訊設備有限公司	300,698	267,427	33,271	436,677	881
<b>Associates</b>					
Shenzhen Zhongxing Xinyu FPC Company Limited	238,471	182,359	56,112	187,382	18,899
Shenzhen Fudekang Electronics Company Limited	64,872	52,174	12,698	147,084	2,892
KAZNURTEL Limited Liability Company	7,164	2,109	5,055	—	—
Wuxi Kaier Technology Company Limited	185,006	140,986	44,020	323,994	6,653
Shenzhen Weigao Semiconductor Company Limited	49,616	36,469	13,147	54,705	1,490
Shenzhen Decang Technology Company Limited	241,022	172,193	68,829	347,756	6,554
Shenzhen Jufei Optoelectronics Co., Ltd.	396,696	133,525	263,171	346,910	80,356
Shenzhen Smart Electronics Company Limited	56,644	30,599	26,045	109,920	(5,083)
北京中鼎盛安科技有限公司	708	115	593	750	(262)
思卓中興(杭州)科技有限公司	40,509	202	40,307	—	(3,994)
上海泰捷通信技術有限公司	54,566	37,438	17,128	54,862	4,120
上海中興群力信息科技有限公	67,052	16,522	50,530	14,631	23,680
Zhongxing Energy Company Limited	2,474,601	930,848	1,543,753	104,292	111,204
廣州市鴻昌隆實業有限公司	47,755	113,871	(66,116)	24,955	(2,996)
深圳市偉文電氣有限公司	6,668	5,307	1,361	11,581	127
ZTE Software Technology (Nanchang) Company Limited	993	622	371	—	—
上海與德通訊技術有限公司	5,732	4,030	1,702	19,139	(479)
Nanjing Piaoxun Network Technology Company Limited	152	3	149	112	(381)
上海歡流傳媒有限公司	3,378	11	3,367	—	(313)
Shenzhen Yuanxing Technology Co., Ltd.	18,420	4,662	13,758	54,121	40,421
Telecom Innovations	36,682	10,222	26,460	16,907	4,406



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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 12. Long-term equity investments

		30 June 2012	31 December 2011
Equity method			
Jointly-controlled entities	(1)	45,302	46,195
Associates	(2)	527,594	467,896
		<b>572,896</b>	<b>514,091</b>

#### (1) Jointly-controlled entities

	Investment Cost	Opening balance	Increase/ decrease during the period	Closing balance	Shareholding percentage	Percentage of voting rights	Cash dividend for the period
Bestel Communications Ltd.	2,050	2,255	—	2,255	50.00%	50.00%	—
普興移動通訊設備有限公司*	43,500	43,940	(893)	43,047	33.85%	50.00%	—
		46,195	(893)	45,302			

#### (2) Associates

	Investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Shareholding percentage	Percentage of voting rights	Cash dividend for the period
Shenzhen Zhongxing Xinyu FPC Company Limited	5,000	12,753	1,347	14,100	22.73%	22.73%	—
Shenzhen Fudekang Electronics Company Limited	1,800	3,809	228	4,037	30.00%	30.00%	—
KAZNURTEL Limited Liability Company	3,988	2,477	—	2,477	49.00%	49.00%	—
Wuxi Kaier Technology Company Limited	7,922	19,634	1,349	20,983	42.64%	42.64%	—
Shenzhen Weigao Semiconductor Company Limited	4,000	5,259	71	5,330	40.00%	40.00%	—
Shenzhen Decang Technology Company Limited	750	20,649	1,289	21,938	30.00%	30.00%	1,313
Shenzhen Jufei Optoelectronics Co., Ltd.	4,500	56,898	69,164	126,062	16.09%	16.09%	—
Shenzhen Smart Electronics Company Limited	7,051	7,813	(1,030)	6,783	30.00%	30.00%	—
北京中鼎盛安科技有限公司	1,960	651	(159)	492	49.00%	49.00%	—
思卓中興(杭州)科技有限公司	22,845	19,859	127	19,986	49.00%	49.00%	—
上海泰捷通信技術有限公司	4,000	6,851	2,110	8,961	40.00%	40.00%	—
上海中興群力信息科技有限公司	2,000	11,438	384	11,822	40.00%	40.00%	—
Zhongxing Energy Company Limited	300,000	287,788	(20,312)	267,476	23.26%	23.26%	—
ZTE Software Technology (Nanchang) Company Limited	4,500	—	—	—	30.00%	30.00%	—
廣州市鴻昌隆實業有限公司	432	476	(28)	448	35.00%	35.00%	—
深圳市偉文電氣有限公司	175	130	—	130	35.00%	35.00%	—
上海與德通訊技術有限公司	2,000	1,904	62	1,966	20.00%	20.00%	—
Nanjing Piaoxun Network Technology Company Limited	533	457	(20)	437	61.00%	20.00%	—
上海歡流傳媒有限公司	1,650	1,547	(328)	1,219	33.00%	33.00%	—
Shenzhen Yuanxing Technology Co., Ltd.	1,850	3,421	(95)	3,326	25.00%	25.00%	—
Telecom Innovations	4,082	4,082	139	4,221	22.70%	22.70%	—
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	5,400	—	5,400	5,400	18.00%	18.00%	—
		467,896	59,698	527,594			1,313

\* The Group's shareholding percentage levels in 普興移動通訊設備有限公司 and Nanjing Piaoxun Network Technology Company Limited were inconsistent with the respective percentage levels of its voting rights in these investees, as the percentage levels of voting rights had been stipulated by the articles of association of the respective companies.

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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 13. Investment properties

	Opening balance	Transfer from owned properties	Closing balance
Cost	—	663,307	663,307
Fixed assets	—	270,004	270,004
Construction in progress	—	355,851	355,851
Intangible assets	—	37,452	37,452
Fair value changes	—	932,670	932,670
Book value	—	1,595,977	1,595,977

During the period, the Group leased relevant buildings to Zhongxing Development Company Limited, a connected party, under operating leases. Such buildings were reclassified from owned properties to investment properties with a book value of RMB663,307,000 as at the date of reclassification. Upon valuation, the fair value as at the date of reclassification was valued at RMB1,595,977,000. The appreciation upon valuation of RMB932,670,000 was included in capital reserve. For details please refer to Note V.33.

Active property trading markets existed in the places where the Group's investment properties were located, therefore market rental prices of similar properties and other relevant information may be obtained in the property trading markets, so as to arrive at scientific and reasonable estimates on the fair value of the investment properties. The benchmark date for the valuation of the Group's investment properties was 30 June 2012, and the valuation was conducted by 天健國眾聯資產評估土地房地產估價有限公司 of Shenzhen using the income method.

As at 30 June 2012, ownership registration certificates had yet to be obtained for investment properties of the Group located in Shanghai, Nanjing, Xi'an and Shenzhen in China with a total book value of RMB1,428,856,000 (31 December 2011: Nil).

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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 14. Fixed assets

	Opening balance	Increase during the period	Decrease during the period	Exchange rate adjustments	Closing balance
<b>Cost</b>					
Buildings	4,346,743	760,208	(314,086)	(20,081)	4,772,784
Freehold land	78,943	—	—	(5,894)	73,049
Electronic equipment	3,343,721	300,668	(128,807)	(3,016)	3,512,566
Machinery equipment	2,372,838	62,295	(25,346)	(9,256)	2,400,531
Vehicles	353,636	11,531	(8,608)	(1,098)	355,461
Other equipment	205,117	15,277	(19,282)	(3,381)	197,731
	<b>10,700,998</b>	<b>1,149,979</b>	<b>(496,129)</b>	<b>(42,726)</b>	<b>11,312,122</b>
<b>Accumulated depreciation</b>					
Buildings	554,524	84,098	(47,962)	(2,960)	587,700
Freehold land	—	—	—	—	—
Electronic equipment	1,730,249	287,708	(115,592)	(1,275)	1,901,090
Machinery equipment	1,181,228	92,815	(23,066)	(4,699)	1,246,278
Vehicles	146,057	17,545	(5,154)	(700)	157,748
Other equipment	85,116	17,272	(9,821)	(1,594)	90,973
	<b>3,697,174</b>	<b>499,438</b>	<b>(201,595)</b>	<b>(11,228)</b>	<b>3,983,789</b>
<b>Net book value</b>					
Buildings	3,792,219	676,110	(266,124)	(17,121)	4,185,084
Freehold land	78,943	—	—	(5,894)	73,049
Electronic equipment	1,613,472	12,960	(13,215)	(1,741)	1,611,476
Machinery equipment	1,191,610	(30,520)	(2,280)	(4,557)	1,154,253
Vehicles	207,579	(6,014)	(3,454)	(398)	197,713
Other equipment	120,001	(1,995)	(9,461)	(1,787)	106,758
	<b>7,003,824</b>	<b>650,541</b>	<b>(294,534)</b>	<b>(31,498)</b>	<b>7,328,333</b>

Depreciation for the six months ended 30 June 2012 amounted to RMB499,438,000 (Six months ended 30 June 2011: RMB486,609,000). For the six months ended 30 June 2012, transfer from construction in progress to fixed assets amounted to RMB754,419,000 (Six months ended 30 June 2011: RMB302,166,000) at cost.

For the six months ended 30 June 2012, fixed assets with a book value of RMB270,004,000 were transferred to investment properties (six months ended 30 June 2011: Nil).

As at 30 June 2012, no houses or buildings were pledged as security for the preservation of properties subject to legal proceedings (31 December 2011: Nil); houses and buildings with a book value of RMB3,200,000 (31 December 2011: RMB6,800,000) were subject to ownership restrictions. As at 30 June 2012 machinery and equipment with a book value of RMB76,937,000 (31 December 2011: RMB91,395,000) were subject to ownership restrictions as they had been pledged as security for borrowings.

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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 14. Fixed assets (continued)

As at 30 June 2012, there were no retired fixed assets or idle fixed assets pending disposal (31 December 2011: Nil).

As at 30 June 2012, the Group was in the process of applying for property ownership certificate for buildings in Shenzhen, Shanghai, Nanjing, Xi'an, Hefei and Wuxi in China with a net book value of approximately RMB3,516,447,000 (31 December 2011: RMB3,073,017,000).

### 15. Construction in progress

	Budget	Opening balance	Increase during the period	Transfer to fixed assets	Transfer to investment properties	Closing balance	Source of funds	Project completion (%) / progress
Nanjing R&D Centre	Nil	730	729	(1,459)	—	—	Internal resources	—
Shanghai R&D Centre Phase II	Nil	759	—	(759)	—	—	Internal resources	—
Staff quarters	Nil	613,485	158,903	(739,000)	—	33,388	Internal resources	—
Sanya R&D Base project	Nil	2,041	1,456	—	—	3,497	Internal resources	—
Equipment installation	Nil	135,383	4,659	(4,103)	—	135,939	Internal resources	—
Phase I Works, Xi'an Zone 2	Nil	504,556	112,145	—	—	616,701	Internal resources	—
Site A10 Project, Xi'an Technology Park	Nil	175,763	27,732	—	(191,524)	11,971	Internal resources	—
C3 R&D Centre, Technology Park	Nil	120,379	57,489	—	(164,327)	13,541	Internal resources	—
Phase I, Heyuan Production R&D Training Base	Nil	87	7,854	—	—	7,941	Internal resources	—
Phase II Work, North Zone, Industry Park	Nil	94	—	—	—	94	Internal resources	—
Others	Nil	27,185	16,082	(9,098)	—	34,169	Internal resources	—
<b>Total:</b>		<b>1,580,462</b>	<b>387,049</b>	<b>(754,419)</b>	<b>(355,851)</b>	<b>857,241</b>		

As at 30 June 2012, there was no capitalized interest amount in the balance of the construction in progress (31 December 2011: Nil).

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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 16. Intangible assets

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Cost				
Software	387,537	65,058	(27,881)	424,714
Technology know-how	6,984	—	—	6,984
Land use rights	950,235	76,499	(39,911)	986,823
Operating concessions	335,490	58,357	(58,391)	335,456
	<b>1,680,246</b>	<b>199,914</b>	<b>(126,183)</b>	<b>1,753,977</b>
Accumulated amortisation				
Software	288,433	31,502	(21,523)	298,412
Technology know-how	4,435	197	—	4,632
Land use rights	63,005	8,655	(3,418)	68,242
Operating concessions	123,105	26,776	—	149,881
	<b>478,978</b>	<b>67,130</b>	<b>(24,941)</b>	<b>521,167</b>
Net book value				
Software	99,104	33,556	(6,358)	126,302
Technology know-how	2,549	(197)	—	2,352
Land use rights	887,230	67,844	(36,493)	918,581
Operating concessions	212,385	31,581	(58,391)	185,575
	<b>1,201,268</b>	<b>132,784</b>	<b>(101,242)</b>	<b>1,232,810</b>
Provision for impairment				
Software	—	—	—	—
Technology know-how	—	—	—	—
Land use rights	6,322	—	—	6,322
Operating concessions	—	—	—	—
	<b>6,322</b>	<b>—</b>	<b>—</b>	<b>6,322</b>
Carrying value				
Software	99,104	33,556	(6,358)	126,302
Technology know-how	2,549	(197)	—	2,352
Land use rights	880,908	67,844	(36,493)	912,259
Operating concessions	212,385	31,581	(58,391)	185,575
	<b>1,194,946</b>	<b>132,784</b>	<b>(101,242)</b>	<b>1,226,488</b>

Amortisation for the six months ended 30 June 2012 amounted to RMB67,130,000 (six months ended 30 June 2011: RMB25,370,000).

For the six months ended 30 June 2012, intangible assets with a book value of RMB37,452,000 were reclassified as investment properties (six months ended 30 June 2011: Nil).

At 30 June 2012, no intangible assets were subject to ownership restriction (31 December 2011: RMB3,681,000).

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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 16. Intangible assets (continued)

As at 30 June 2012, the Group was in the process of obtaining the land use right certificate of land blocks located in Shenzhen, Sanya and Nanjing in the PRC, with a net carrying value of approximately RMB466,341,000 (31 December 2011: RMB469,647,000).

Deferred development costs are analysed as follows:

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Handsets	238,900	23,021	(34,108)	227,813
System products	1,686,710	356,310	(120,899)	1,922,121
	<b>1,925,610</b>	<b>379,331</b>	<b>(155,007)</b>	<b>2,149,934</b>

For the six months ended 30 June 2012, deferred development costs accounted for 8.6% of total research and development costs (Six months ended 30 June 2011: 10%).

### 17. Deferred tax assets/liabilities

Deferred tax assets and deferred tax liabilities were not presented as a net amount after offsetting:

Deferred tax assets and liabilities recognised:

	30 June 2012	31 December 2011
Deferred tax assets		
Unrealised profits arising on consolidation	114,486	90,557
Provision for impairment in inventory	66,782	86,465
Foreseeable contract losses	10,223	10,265
Provision for warranties and returned goods	75,526	51,904
Provision for retirement benefits	7,996	8,108
Deductible tax losses	470,420	482,340
Overseas taxes pending deduction	183,728	220,468
Amortisation of deferred development cost	43,436	36,913
Accruals	216,148	141,816
	<b>1,188,745</b>	<b>1,128,836</b>
Deferred tax liabilities		
Gains arising from deemed disposal of an associate	(22,040)	—
	<b>(22,040)</b>	<b>—</b>

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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 18. Provision for impairment of assets

	Opening balance	Provision for the period	Decrease during the period		Exchange rate difference	Closing balance
			Write-back	Write-off		
Bad debt	2,682,078	225,822	(17,675)	(8,674)	(13,095)	2,868,456
Including: Trade receivables	2,600,429	225,625	(17,675)	(8,674)	(13,507)	2,786,198
Long term trade receivables	81,649	197	—	—	412	82,258
Provision for impairment of inventories	1,074,135	286,193	(33,850)	(1,355)	(12,820)	1,312,303
Provision for impairment of intangible assets	6,322	—	—	—	—	6,322
	<b>3,762,535</b>	<b>512,015</b>	<b>(51,525)</b>	<b>(10,029)</b>	<b>(25,915)</b>	<b>4,187,081</b>

The Group determines at the balance sheet whether there is an indication of impairment in trade receivables. Where there is such indication, the Group will estimate its recoverable amount and conduct impairment tests.

Inventory is measured at the lower of cost and net realizable value. Where the cost is higher than the net realisable value, provision for impairment in inventory is recognized in current profit or loss. When the factors justifying provisions for impairment in inventory no longer exist, the provision for impairment in inventory may be written back, provided that no more write back should be made when the balance of provisions for impairment in inventory reaches zero.

### 19. Short-term loans

		30 June 2012		31 December 2011		
		Original currency	RMB equivalent	Original currency	RMB equivalent	
Credit loans	RMB	2,838,598	2,838,598	4,396,321	4,396,321	
	USD	1,291,036	8,165,674	723,357	4,557,801	
	JPY	—	—	500,000	40,552	
	INR	293,123	32,925	650,000	76,889	
Secured loans	RMB	3,800	3,800	11,800	11,800	Note 1
Bill discounted loans	RMB	1,774,918	1,774,918	1,010,402	1,010,402	Note 2
Pledged loans	RMB	75,039	75,039	1,085,174	1,085,174	Note 3
	USD	—	—	700	4,410	
			<b>12,890,954</b>		<b>11,183,349</b>	

As at 30 June 2012, the annual interest rate of the above loans ranged from 2.00%–14.00% (31 December 2011: 2.00%–12.60%).

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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 19. Short-term loans (continued)

Note 1: The secured loan comprised a loan of RMB3,800,000 obtained by Xi'an Jing Cheng Communications Company Limited and secured by its offices and plants with a book value of RMB3,200,000.

Note 2: Bill discounted loans were loans discounted by bank acceptance bills and commercial acceptance bills.

Note 3: Pledged loans were loans secured by trade receivables.

### 20. Bills payable

	30 June 2012	31 December 2011
Bank acceptance bills	5,502,523	7,586,471
Commercial acceptance bills	5,733,243	3,562,896
	<b>11,235,766</b>	<b>11,149,367</b>

The aforesaid bills payable would be due within six months.

As at 30 June 2012, bills payable due to shareholders holding 5% or more in the voting shares amounted to RMB27,752,000 (31 December 2011: RMB45,329,000). Please refer to Note VI. "The relationships and transactions with related parties".

### 21. Trade payables

Trade payables represent purchase amounts payable to suppliers which are interest-free and repayable normally within 6 months.

As at 30 June 2012, trade payables included amounts due to shareholders holding 5% or more in the voting shares or related parties amounting to RMB160,958,000 (31 December 2011: RMB267,259,000). Please refer to Note VI. "The relationships and transactions with related parties".

### 22. Advances from customers

	30 June 2012	31 December 2011
Advances from customers for system project work	1,738,970	1,561,280
Advances from customers for handsets	952,160	897,148
	<b>2,691,130</b>	<b>2,458,428</b>

As at 30 June 2012, advance from customers included advance from shareholders holding 5% or more in the voting shares or related parties amounting to RMB8,031,000 (31 December 2011: RMB11,251,000). Please refer to Note VI. "The relationships and transactions with related parties".



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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 23. Salary and welfare payables

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Salary, bonus and allowance	1,579,721	5,135,585	(5,479,607)	1,235,699
Staff welfare	43,502	320,629	(328,830)	35,301
Social insurance	60,642	1,115,920	(1,161,282)	15,280
Including: Pension insurance	42,950	458,105	(496,502)	4,553
Medical insurance	16,941	624,945	(628,074)	13,812
Unemployment insurance	(25)	14,259	(15,818)	(1,584)
Working injuries insurance	631	9,348	(10,391)	(412)
Maternity Insurance	145	9,263	(10,497)	(1,089)
Housing funds	25,648	418,360	(405,037)	38,971
Labour union fund and employee education fund	699,519	141,988	(75,180)	766,327
	<b>2,409,032</b>	<b>7,132,482</b>	<b>(7,449,936)</b>	<b>2,091,578</b>

The Group made full payments of staff remuneration as and when due in accordance with the Labour Law of the People's Republic of China.

### 24. Taxes payable

	30 June 2012	31 December 2011
Value-added tax ("VAT")	(1,803,978)	(2,415,940)
Business tax	286,234	360,607
Income tax	410,887	880,275
PRC Tax	175,216	518,668
Overseas Tax	235,671	361,607
Individual income tax	59,445	127,488
City maintenance and construction tax	28,348	42,263
Education surcharge	25,131	48,871
Others	(21,811)	(33,605)
	<b>(1,015,744)</b>	<b>(990,041)</b>

### 25. Dividends payable

	30 June 2012	31 December 2011
Dividend payable to holders of the parent	686,318	128
Dividend payable to non-controlling shareholders	174,309	169,918
	<b>860,627</b>	<b>170,046</b>

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## 26. Other payables

	30 June 2012	31 December 2011
Employee subscriptions under the share incentive scheme	31,634	30,572
Contributions to staff housing	814,610	464,800
Accruals	1,216,188	747,248
Payables to external parties	4,217,721	5,722,073
Deposits	22,555	21,409
Factored interests payable	99,156	101,759
Payables to employees	141,982	320,108
Others	449,882	118,508
	<b>6,993,728</b>	<b>7,526,477</b>

As at 30 June 2012, other payables include amounts due to shareholders or related parties holding 5% or more in the voting shares amounting to RMB3,464,000 (31 December 2011: RMB2,722,000). Please refer to Notes VI. "The relationships and transactions with related parties".

## 27. Provisions

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Outstanding litigations	45,733	—	(3,219)	42,514
Provision for returned handsets	73,519	2,833	(13,572)	62,780
Provision for warranties	274,091	238,527	(219,556)	293,062
	<b>393,343</b>	<b>241,360</b>	<b>(236,347)</b>	<b>398,356</b>

## 28. Long-term liabilities due within one year

	30 June 2012	31 December 2011
Long-term loans due within one year	500,000	693,099
Bonds cum Warrants due within one year	3,934,935	—
	<b>4,434,935</b>	<b>693,099</b>

Long-term loans due within one year are analysed as follows:

	Currency	30 June 2012		31 December 2011	
		Original currency	RMB equivalent	Original currency	RMB equivalent
Credit loans	RMB	500,000	500,000	—	—
	USD	—	—	110,000	693,099
			<b>500,000</b>		<b>693,099</b>

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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 28. Long-term liabilities due within one year (continued)

As at 30 June 2012, long-term loans due within one year were as follows:

	Loan Drawdown Date	Loan Due Date	Currency	Interest rate (%)	30 June 2012 Amount	31 December 2011 Amount
Exim Bank of China	2011.2.1	2013.2.1	RMB	Approximately 5%	500,000	500,000

As at 30 June 2012, bonds payable due within one year were as follows:

	Nominal value	Date of issue	Maturity	Amount of issue	Liability cost at issue date	Balance at the beginning of the period	Interests accrued for the period	Interest paid for the period	Balance at the end of the period
Bonds cum Warrants	RMB100	30 January 2008	5 years	4,000,000	3,381,234	3,884,198	82,737	(32,000)	3,934,935

On 30 January 2008, the Company issued 40,000,000 bonds cum warrants with a nominal value of RMB100 each and a total amount of RMB4 billion. The bonds and the warrants are listed on the Stock Exchange of Shenzhen. The bonds with warrants are guaranteed by China Development Bank, and are fully redeemable within 5 years from the date of issue. Holders of the bonds have also been issued 1.63 warrants at nil consideration for every bond issued and therefore a total of 65,200,000 warrants have been issued. The warrants are valid for 24 months from the date of listing. Holders of the Warrants are entitled to subscribe for one A Share for every two warrants held at an initial exercise price of RMB78.13 per Share. In the event of any ex-rights or ex-dividend netting of share prices during the effective period for the warrants, the exercise price and exercise ratio of the warrants will be adjusted accordingly. As the Company distributed share dividend and issued bonus shares during 2008 and 2009, the exercise price of the warrants was adjusted to RMB42.394 per share and the exercise ratio was adjusted to the subscription of 0.922 A share for every one warrant held.

As at the close of trading on 12 February 2010, a total of 23,348,590 “中興 ZXC1” warrants were exercised and 21,523,411 new shares were issued as a result.

The coupon interest rate of the bonds cum warrants is 0.8% per annum payable on 30 January of each year. At the issue of the bonds, interest rates of similar bond issues (without warrants) in the market were higher than the interest rate of the bond cum warrants.

The fair value of the liability component of the bonds cum warrants was assessed by reference to interest rates of similar bond issues (without warrants) in the market at the issue date.

The net book value of the liability component of the bonds cum warrants at the issue date was set out as follows:

Coupon value of Bonds cum Warrants	4,000,000
Equity component	(580,210)
Direct transaction costs attributable to the liability component	(38,556)
Liability component at issue date	3,381,234

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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 29. Long-term loans

		30 June 2012		31 December 2011		
		Original currency	RMB equivalent	Original currency	RMB equivalent	
Credit loans	RMB	800,000	800,000	500,000	500,000	
	USD	100,000	632,490	100,000	630,090	
Guaranteed loans	USD	885,890	5,603,166	883,548	5,567,145	Note 1
Secured loans	USD	33,672	212,972	38,640	243,467	Note 2
			7,248,628		6,940,702	

Note 1: The guaranteed loan consisted mainly of guaranteed loan extended to ZTE (H.K.) Limited, a subsidiary by the company.

Note 2: The secured loan was obtained by Closed Joint Stock Company TK Mobile and secured by the existing network equipment with a book value of RMB76,937,000.

As at 30 June 2012, the top five long-term loans were as follows:

	Drawdown date	Due date	Currency	Interest rate (%)	30 June 2012		31 December 2011	
					Original currency	RMB equivalent	Original currency	RMB equivalent
Bank of China	2011.8.15	2016.8.15	USD	Approximately 3%	439,641	2,780,684	438,418	2,762,428
Bank of China	2011.7.20	2014.7.20	USD	Approximately 2%	346,338	2,190,551	345,467	2,176,751
Bank of China	2012.4.25	2015.4.25	RMB	Approximately 7%	800,000	800,000	—	—
China Development Bank	2011.7.19	2014.7.19	USD	Approximately 2%	100,000	632,490	100,000	630,090
Bank of China	2011.8.15	2014.8.15	USD	Approximately 4%	98,912	625,607	98,663	621,666

### 30. Bonds payable

#### 30 June 2012

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Bonds cum Warrants (Note 1)	3,884,198	82,737	(3,966,935)	—
Bonds payable (Note 2)	—	5,976,196	—	5,976,196
	3,884,198	6,058,933	(3,966,935)	5,976,196

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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 30. Bonds payable (continued)

#### 31 December 2011

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Bonds cum Warrants	3,755,790	160,408	(32,000)	3,884,198

Note 1: The Company issued 40 million Bonds cum Warrants each with a face value of RMB100 for a total amount of RMB4 billion on 30 January 2008 for full repayment within 5 years from the date of issue. Outstanding Bonds cum Warrants as at the end of the period were transferred to non-current liabilities due within one year. For details please refer to Note V.28.

Note 2: On 13 June 2012, the Company issued 3-year unsecured corporate bonds for a total amount of RMB6 billion. The corporate bonds carry a coupon interest rate of 4.2% with bond interest payable annually on 13 June. As at the issue date, liability costs arising from the deduction of issue expenses amounted to RMB5,965,213,000.

### 31. Other non-current assets/liabilities

#### Other non-current assets

	30 June 2012	31 December 2011
Deposits for purchase of property, plant and equipment	172,390	161,722
Upfront fee	484,789	529,518
Risk compensation	945,207	949,666
Other	167,802	—
	<b>1,770,188</b>	<b>1,640,906</b>

#### Other non-current liabilities

	30 June 2012	31 December 2011
Long-term financial guarantee contract	3,689	3,689
Provision for retirement benefits	48,221	48,716
Factored interests payable	351,421	377,059
Deferred income relating to staff housing	192,833	192,833
Non-current portion of hedging instruments	10,979	1,248
	<b>607,143</b>	<b>623,545</b>

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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 32. Share capital

	Opening balance	Change during the period	Closing balance
Restricted shares			
Domestic natural person shares	9,126	—	9,126
Senior management shares	8,330	(130)	8,200
Total number of restricted shares	17,456	(130)	17,326
Unrestricted shares			
RMB Ordinary Shares	2,793,037	130	2,793,167
Overseas listed foreign shares	629,585	—	629,585
Total number of unrestricted shares	3,422,622	130	3,422,752
Total number of shares	3,440,078	—	3,440,078

### 33. Capital reserves

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium	8,410,165	—	—	8,410,165
Changes in shareholders' equity of investee other than net of gains/losses under equity method and other capital reserves	41,260	5,919	—	47,179
Appreciation of investment properties upon valuation (Note 1)	—	932,670	—	932,670
Changes in the fair value of hedging instruments (Note 2)	(4,120)	—	(9,344)	(13,464)
Share-based payment (Note 3)	12,502	3,666	—	16,168
Capital injection from government	80,000	—	—	80,000
	8,539,807	942,255	(9,344)	9,472,718

Note 1: For the six months ended 30 June 2012, the Group's owned properties were reclassified as investment properties subsequently measured at fair value and a value appreciation of RMB932,670,000 was recorded upon assessment. For details please refer to Note V.13.

Note 2: A loss of RMB9,344,000 was incurred as a result of interest rate swaps of hedging instruments.

Note 3: In the six months ended 30 June 2012, equity-settled share-based payments with a total amount of RMB3,666,000 were recognized as current expenses.

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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 34. Restricted shares subject to lock-up

In July 2009, all of the 85,006,813 Subject Shares under the Share Incentive Scheme of the Company were registered as share capital on a one-off basis. Unlocking conditions in respect of 15,269,290 shares, being 20% of the First Award had been fulfilled and the shares were listed on 23 July 2009.

On 4 June 2010, 26,452,094 Subject Shares, representing 35% of the Second Unlocking under the First Award, were listed upon fulfillment of their unlocking conditions. The number of registered Subject Shares subject to lockup was adjusted to 64,928,143 shares following the implementation of the Company's plan of profit distribution and capitalisation of capital reserve for 2009 on 24 June 2010, whereby 5 shares were issued for every 10 shares held. A total of 2,520,957 Subject Shares, representing 20% of the First Unlocking under the Second Award were listed on 15 December 2010 upon fulfillment of their unlocking conditions.

The number of registered Subject Shares subject to lockup was adjusted to 74,888,624 shares following the implementation of the Company's plan of profit distribution and capitalisation of capital reserve for 2010 on 7 July 2011, whereby 2 shares were issued for every 10 shares held. A total of 60,532,063 Subject Shares, representing 45% of the Third Unlocking under the First Award were listed on 21 July 2011 upon fulfillment of their unlocking conditions. A total of 5,230,667 Subject Shares, representing 35% of the Second Unlocking under the Second Award were listed on 29 December 2011 upon fulfillment of their unlocking conditions. After deducting the Subject Shares under the Unlocking, there were 9,125,893 registered Subject Shares for which unlocking conditions had not been fulfilled as at 30 June 2012, and 2,251,699 Subject Shares had lapsed.

In accordance with the Share Incentive Scheme and relevant legal undertakings executed by the Company and the Scheme Participants, such shares are being held under the name of the Scheme Participants, who are not entitled to any cash dividend distribution and voting rights until the unlocking conditions have been fulfilled in respect of such shares. Where Scheme Participants leave office due to resignation or termination by the Company before the end of the validity period of the Share Incentive Scheme, they may still exercise their rights in respect of unlocked Subject Shares pursuant to the Share Incentive Scheme, while Subject Shares subject to lock-up will no longer be available for unlocking. Instead, the Company will refund to the Scheme Participants amounts equivalent to the subscription costs for the Subject Shares paid by the Scheme Participants with their own funds, and the Subject Shares subject to lock-up would lapse. Accordingly, the amount of RMB40,537,000, being subscription amounts paid by Scheme Participants in relation to the restrictive shares subject to lock-up, was charged to shareholders' equity as "restricted shares subject to lock-up" in the balance sheet. For details of the Share Incentive Scheme, please refer to Note VII. Share-based payment.

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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 35. Surplus reserves

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Statutory surplus reserves	1,587,891	—	(461)	1,587,430

In accordance with the Company Law of the PRC and the articles of associations, the Company is required to allocate 10% of their profit after tax to the statutory surplus reserve, until the accumulated statutory surplus reserve has reached 50% of the registered capitals of the Company.

The Company may further allocate to the discretionary surplus reserve after the statutory surplus reserves allocation. The discretionary surplus reserve can be applied towards making up losses of the previous years, or capitalized as the company's share capital.

### 36. Retained profits

	30 June 2012
Retained profits at the beginning of the period	10,545,984
Net profit	244,875
Less: Statutory surplus reserves	—
Proposed final dividend	—
Retained profits at the end of the period	10,790,859

In accordance with the Articles of Association of the Company, profit available for distribution shall be the lower of profit available for distribution as calculated in accordance with PRC ASBEs and that calculated in accordance with HKFRSs.

### 37. Operating revenue and costs

Operating revenue is analysed as follows:

	Six months ended 30 June 2012	Six months ended 30 June 2011 (Restated)
Revenue	42,538,106	36,872,946
Other income	103,792	140,165
Total	42,641,898	37,013,111



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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 37. Operating revenue and costs (continued)

Operating cost is analysed as follows:

	Six months ended 30 June 2012	Six months ended 30 June 2011
Costs of sales	31,203,030	26,128,570
Other operating expenses	74,960	115,161
<b>Total</b>	<b>31,277,990</b>	<b>26,243,731</b>

Principal operations by product:

	Six months ended 30 June 2012		Six months ended 30 June 2011	
	Revenue	Cost	Revenue (Restated)	Cost
Networks	21,279,581	14,421,544	20,482,092	13,458,295
Terminals	14,248,064	11,882,809	11,214,730	9,013,213
Telecommunications software system, services and other products	7,010,461	4,898,677	5,176,124	3,657,062
	<b>42,538,106</b>	<b>31,203,030</b>	<b>36,872,946</b>	<b>26,128,570</b>

Principal operations by geography:

	Six months ended 30 June 2012		Six months ended 30 June 2011	
	Revenue	Cost	Revenue (Restated)	Cost
The PRC	20,799,640	14,783,179	16,413,551	10,847,956
Asia (excluding the PRC)	7,991,518	6,109,326	6,788,538	5,261,543
Africa	3,923,335	2,400,468	5,003,829	2,932,981
Europe, Americas and Oceania	9,823,613	7,910,057	8,667,028	7,086,090
	<b>42,538,106</b>	<b>31,203,030</b>	<b>36,872,946</b>	<b>26,128,570</b>

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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 37. Operating revenue and costs (continued)

For the six months ended 30 June 2012, operating revenue from the top five customers was as follows:

Names of customer	Amount	As a percentage of operating revenue %
Customer 1	5,200,120	12.19%
Customer 2	4,733,159	11.10%
Customer 3	4,230,218	9.92%
Customer 4	944,624	2.22%
Customer 5	567,185	1.33%
Total	15,675,306	36.76%

Sales to the top five customers of the Group generated revenue of RMB15,675,306,000 for six months ended 30 June 2012 (six months ended 30 June 2011: RMB12,703,922,000), accounting for 36.76% (six months ended 30 June 2011: 34.32%) of the operating revenue of the Group respectively.

### 38. Construction contracts

Construction contract works are stated as the sum of accumulated costs and accumulated gross profit (loss) recognized less settled contract amounts and expected losses on contracts. See Note V.8. For the period under review, there was no single contract whose recognized income accounted for more than 10% of the operating revenue.

### 39. Taxes and surcharges

	Six months ended 30 June 2012	Six months ended 30 June 2011 (Restated)
Business tax	374,421	333,457
City maintenance and construction tax	122,661	144,443
Education surcharge	93,789	66,152
Others	17,248	28,865
	608,119	572,917

For tax standards, please refer to Note III, "Taxation".

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 40. Losses from changes in fair values

	Six months ended 30 June 2012	Six months ended 30 June 2011
Financial assets at fair value through profit or loss	(23,694)	(182,131)
Derivative financial instruments	(7,745)	(54,420)
	<b>(31,439)</b>	<b>(236,551)</b>

### 41. Investment income

	Six months ended 30 June 2012	Six months ended 30 June 2011
Long-term equity investments (loss)/income under equity method	(7,922)	9,407
Long-term equity investments income under cost method	2,107	1,060
Investment income arising from the disposal of derivative financial instruments	32,240	66,529
Investment income arising from the disposal of long term equity investments	64,453	1,088,293
	<b>90,878</b>	<b>1,165,289</b>

As at 30 June 2012, the Company was not subject to significant restrictions in remitting its investment income.

### 42. Finance expenses

	Six months ended 30 June 2012	Six months ended 30 June 2011
Interest expenses	561,520	509,670
Less: Interest income	67,994	51,913
Loss/(gain) on foreign currency exchange	141,321	(279,642)
Cash discounts and interest subsidy	2,204	68,141
Bank charges	194,012	194,229
	<b>831,063</b>	<b>440,485</b>

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 43. Impairment losses

	Six months ended 30 June 2012	Six months ended 30 June 2011
Bad debt provisions	208,147	270,740
Inventories provisions	252,343	15,977
	<b>460,490</b>	<b>286,717</b>

### 44. Non-operating income/Non-operating expenses

#### *Non-operating income*

	Six months ended 30 June 2012	Six months ended 30 June 2011	The amount in the nonrecurring profit/loss of the period
Refund of VAT on software products (Note 1)	1,152,837	363,034	—
Others (Note 2)	393,881	266,085	320,436
	<b>1,546,718</b>	<b>629,119</b>	<b>320,436</b>

Note 1: Refund of VAT on software products represents the refund upon payment of VAT according to the portion of any effective VAT rate in excess of 3% in respect of software product sales by some subsidiaries of the Company, pursuant to the principles of the State Council document entitled product sales by some subsidiaries of the Company, pursue Software Enterprise and the IC Industry' and the approval reply of the state taxation authorities.

Note 2: Others represent gains from government grants, contract penalties and other gains.

#### *Non-operating expenses*

	Six months ended 30 June 2012	Six months ended 30 June 2011	The amount in the non-recurring profit/loss of the period
Compensation	69	31,199	69
Loss on disposal of non-current assets	12,068	5,087	12,068
Others	15,602	3,828	15,602
	<b>27,739</b>	<b>40,114</b>	<b>27,739</b>

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 45. Income tax

	Six months ended 30 June 2012	Six months ended 30 June 2011
Current income tax	301,493	465,508
Deferred income tax	(37,869)	(29,089)
	<b>263,624</b>	<b>436,419</b>

Income tax and total profit reconciled as follows:

	Six months ended 30 June 2012	Six months ended 30 June 2011
Total profit	655,632	1,272,749
Tax at statutory tax rate (Note 1)	163,908	318,187
Effect of different tax rates applicable to certain subsidiaries	(162,000)	(69,100)
Profits and losses attributable to jointly-controlled entities and associates	1,981	(2,352)
Income not subject to tax	(159,207)	(224,699)
Tax reduction/exemption	(6,845)	(16,384)
Expenses not deductible for tax	184,294	200,748
Adjustments to current taxes of previous periods	(10,883)	63,739
Utilisation of deductible tax losses from previous years	(70,467)	(87,114)
Unrecognised tax losses	322,843	253,394
Tax amounts at the Group's effective tax rates	<b>263,624</b>	<b>436,419</b>

Note 1: The Group's income tax has been provided at the rate on the estimated taxable profits arising in the PRC during the period. Taxes on taxable profits 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.

# Notes to Financial Statements

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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 46. Earnings per share

Basic earnings per share is computed by dividing the net profit attributable to equity holders of the Company for the period by the weighted average number of ordinary shares in issue.

In the calculation of diluted earnings per share, net profit attributable to ordinary equity holders of the Company for the period is adjusted for the following: (1) interests on potentially dilutive ordinary shares recognized as expenses for the period; (2) income or expenses arising from the conversion of potentially dilutive ordinary shares; and (3) income tax effect on the above adjustments.

In the calculation of diluted earnings per share, the denominator shall be the sum of: (1) weighted average number of ordinary shares of the Company in issue adopted in the calculation of basic earnings per share; and (2) weighted average number of ordinary shares created assuming conversion of potentially dilutive ordinary shares into ordinary shares.

In calculating the weighted average number of ordinary shares created upon conversion of potentially dilutive ordinary shares into ordinary share, potentially dilutive ordinary shares issued in previous periods are assumed to have been converted at the beginning of the current year, whereas potentially dilutive ordinary shares issued in the current period are assumed to have been converted on the date of issue.

Calculations of basic and diluted earnings per shares were as follows:

	Six months ended 30 June 2012	Six months ended 30 June 2011 (Restated)
Earnings		
Net profit attributable to ordinary shareholders of the Company for the period	244,875	769,271
Shares		
Weighted average number of ordinary shares of the Company (Note 1) ('000 shares)	3,430,952	3,365,190
Diluting effect — weighted average number of ordinary shares		
Restricted Shares under share incentive scheme (Note 2) ('000 shares)	6,874	74,237
Adjusted weighted average number of ordinary shares of the Company ('000 shares)	3,437,826	3,439,427

Note 1: In July 2011, the Company enlarged its share capital by 573,346,336 shares by way of capitalisation of capital reserves. After the capitalisation, the total number of ordinary shares in issue was 3,440,078,020 shares. The amounts of earnings per share for the reported periods were computed on the basis of the adjusted number of shares. During the reporting period, 9,125,893 restricted shares subject to lock-up under the Phase I Share Incentive Scheme of the Company were not accounted for outstanding ordinary shares in issue.

Note 2: During the reporting period, 6,874,194 restricted shares (less 2,251,699 shares which were to lapse) subject to lock-up under the Phase I Share Incentive Scheme of the Company gave rise to potentially dilutive ordinary shares.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 47. Other comprehensive income

	Six months ended 30 June 2012	Six months ended 30 June 2011
Fair-value changes in hedging instruments	(9,344)	—
Differences arising from foreign currency translation	(218,101)	(2,303)
Fair-value changes in available-for-sale financial assets	19,374	—
Appreciation of investment properties upon valuation	932,670	—
	<b>724,599</b>	<b>(2,303)</b>

### 48. Notes to cash flow statement

	Six months ended 30 June 2012	Six months ended 30 June 2011
Cash received in connection with other operating activities:		
Interest income	67,994	51,913
Others	344,139	2,301,949
Cash paid in connection with other operating activities:		
Selling and distribution costs	2,999,196	3,076,496
Administrative expenses and research and development costs	1,144,348	1,304,256

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 49. Supplemental information on cash flow statement

Reconciliation of net profit to cash flows from operating activities:

	Six months ended 30 June 2012	Six months ended 30 June 2011
Net profit	392,008	836,330
Add: Provision for impairment of assets	460,490	286,717
Depreciation of fixed assets	499,438	486,609
Amortisation of intangible assets and deferred development costs	222,137	145,384
Amortisation of long-term deferred assets	5,117	14,911
Loss on disposal of fixed assets, intangible assets and other long-term assets	12,068	5,087
Loss from changes in fair value	31,439	236,551
Finance expenses	561,629	230,028
Investment income	(90,878)	(1,165,289)
Increase in deferred tax assets	(59,909)	(10,372)
Increase/(decrease) in deferred tax liabilities	22,040	(18,247)
(Increase)/decrease in inventories	1,680,576	(3,058,536)
Increase in operating receivables	(2,010,771)	(5,991,255)
Increase/(decrease) in operating payables	(5,039,483)	2,614,115
Share incentive scheme costs	3,666	34,670
Increase in cash subject to ownership restrictions	(329,239)	(818,056)
Net cash flows from operating activities	<b>(3,639,672)</b>	<b>(6,171,353)</b>

Cash and cash equivalents:

	Six months ended 30 June 2012	Six months ended 30 June 2011
Cash		
Including: Cash on hand	10,349	7,840
Bank deposit readily available	20,533,111	14,859,690
Closing balance of cash and cash equivalents	<b>20,543,460</b>	<b>14,867,530</b>



# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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## VI. THE RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES

### 1. Controlling shareholder

Name of controlling shareholder	Type of enterprise	Place of registration	Legal representative	Nature of business	Registered capital	Percentage of shareholdings	Percentage of voting rights	Organisation number
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Company with limited liability	Shenzhen, Guangdong	Xie Weiliang	Manufacturing	RMB100 million	30.76%	30.76%	19222451-8

In accordance with Shenzhen Stock Exchange Listing Rules, the controlling shareholder of the Company is Shenzhen Zhongxingxin Telecommunications Equipment Company Limited.

### 2. Subsidiaries

Details of the subsidiaries are set out in Note IV. Scope of Consolidation of the Consolidated Financial Statements.

### 3. Jointly-controlled entities and associates

Details of the jointly-controlled entities and associates are set out in Note V. 11 and 12.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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## VI. THE RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

### 4. Other related parties

	Relationship	Organisation number
Shenzhen Zhongxing WXT Equipment Company Limited	Shareholder of the Company's controlling shareholder	27941498X
Xi'an Microelectronics Technology Research Institute	Shareholder of the Company's controlling shareholder	H0420141-X
Shenzhen Zhongxing Information Company Limited	Company with equity investment from shareholders of the Company's controlling shareholder	715233457
Shenzhen Gaodonghua Communication Technology Company Limited	Company with equity investment from shareholders of the Company's controlling shareholder	74323392-1
Shenzhen Shenglongfeng Industrial Company Limited	Company with equity investment from shareholders of the Company's controlling shareholder	72619249-4
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	Under the same controlling shareholder of the Company	75049913-8
Zhongxing Xinzhou Complete Equipment Company Limited	Under the same controlling shareholder of the Company	78390928-7
Shenzhen Zhongxing Xinyu FPC Company Limited	Under the same controlling shareholder of the Company/Associate of the Company	75252829-7
Wuxi Zhongxing Intelligent Transportation Systems Limited	Senior management of the Company concurrently acting as director of the related party	72260457-8
Mobi Antenna Technologies (Shenzhen) Company Limited	Company in which a supervisor of the Company's controller shareholder acts as director	71522427-8
Zhongxing Development Company Limited	Chairman of the Company concurrently acting as chairman of the related party	75048467-3
北京協力超越科技有限公司	Subsidiary controlled by a shareholder of the Company's controlling shareholder	76678847-X
三河中興發展有限公司	Subsidiary of a company whose chairman was also a director of the Company	78409578-0
三河中興物業服務有限公司	Subsidiary of a company whose chairman was also a director of the Company	67854891-8
南京中興群力信息科技有限公司	Subsidiary of an associate company of the Company	69837419-3
Zhongxing Energy (Inner Mongolia) Company Limited	Subsidiary of an associate company of the Company	69594973-X
Zhongxing Energy (Shenzhen) Company Limited	Subsidiary of an associate company of the Company	56420239-6
Zhongxing Energy (Tianjin) Company Limited	Subsidiary of an associate company of the Company	69741992-7
Zhongxing Energy (Hubei) Company Limited	Subsidiary of a company for which the chairman of the Company concurrently acted as chairman	79590131-1
Chongqing ZHongxing Development Company Limited	Subsidiary of a company for which the chairman of the Company concurrently acted as chairman	76591251-1
Huatong Technology Company Limited	Subsidiary of a company for which the chairman of the Company concurrently acted as chairman	66727177-X

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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## VI. THE RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

### 5. Major transactions between the Group and related parties

#### (1) Commodity transactions with connected parties

Sales of goods to related parties:

	Six months ended 30 June 2012		Six months ended 30 June 2011	
	Amount	Percentage (%)	Amount	Percentage (%)
Shenzhen Zhongxing Information Company Limited	4,309	0.01	5,631	0.02
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	943	—	1,498	—
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	338	—	150	—
Zhongxing Intelligent Transport System (Wuxi) Company Limited	18,162	0.04	1,494	—
Mobi Antenna Technologies (Shenzhen) Company Limited	152	—	—	—
上海與德通訊技術有限公司	167	—	—	—
Zhongxing Development Company Limited*	2	—	—	—
Shenzhen Weigao Semiconductor Company Limited	2,553	0.01	730	—
南京中興群力信息科技有限公司	1,438	—	5,658	0.02
普興移動通訊設備有限公司	43,894	0.11	316,956	0.85
Shenzhen Decang Technology Company Limited	133	—	—	—
Shenzhen Zhongxing Xinyu FPC Company Limited	20	—	—	—
Wuxi Kaier Technology Company Limited	3,189	0.01	—	—
Shenzhen Yuanxing Technology Co., Ltd.	5	—	—	—
Shenzhen Shenglongfeng Industrial Company Limited	42	—	—	—
北京協力超越科技有限公司	2	—	—	—
Shenzhen Fudekang Electronics Company Limited	89	—	—	—
Zhongxing Software Technology (Nanchang) Company Limited	—	—	59	—
Zhongxing Energy (Inner Mongolia) Company Limited	—	—	73	—
	<b>75,438</b>	<b>0.18</b>	<b>332,249</b>	<b>0.89</b>

Commodities sold by the Group to connected parties were communications products.

During the period, the Group sold commodities to connected parties at market prices.

For the six months ended 30 June 2012, sales to related parties accounted for 0.18% of the Group's total sales. (Six months ended 30 June 2011: 0.89%).

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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## VI. THE RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

### 5. Major transactions between the Group and related parties (continued)

#### (1) Commodity transactions with connected parties (continued)

*Purchase of goods from related parties:*

	Six months ended 30 June 2012		Six months ended 30 June 2011	
	Amount	Percentage (%)	Amount	Percentage (%)
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	100,634	0.44	175,654	0.80
Shenzhen Fudekang Electronics Company Limited	11,624	0.05	18,391	0.09
Nationz Technologies Inc.**	—	—	21,224	0.10
Wuxi Kaier Technology Company Limited	74,447	0.33	46,044	0.21
Shenzhen Weigao Semiconductor Company Limited	15,938	0.07	20,528	0.09
Shenzhen Decang Technology Company Limited	6,585	0.03	18,323	0.08
Shenzhen Jufei Optoelectronics Co., Ltd.	4,637	0.02	4,990	0.02
Shenzhen Smart Electronics Company Limited	—	—	361	—
Shenzhen Zhongxing Xinyu FPC Company Limited	77,997	0.34	9,559	0.04
Mobi Antenna Technologies (Shenzhen) Company Limited	109,280	0.48	131,941	0.59
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	66,096	0.29	62,556	0.28
Zhongxing Xinzhou Complete Equipment Company Limited	—	—	6,468	0.03
Shenzhen Zhongxing Information Company Limited	—	—	323	—
Shenzhen Shenglongfeng Industrial Company Limited	15,288	0.07	12,309	0.06
Xi'an Microelectronics Technology Research Institute	—	—	995	—
ZTE Software Technology (Nanchang) Company Limited	9,188	0.04	4	—
Huatong Technology Company Limited	4,320	0.02	—	—
Zhongxing Energy (Tianjin) Company Limited	480	—	—	—
	<b>496,514</b>	<b>2.18</b>	<b>529,670</b>	<b>2.39</b>

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## VI. THE RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

### 5. Major transactions between the Group and related parties (continued)

#### (1) Commodity transactions with connected parties (continued)

##### *Purchase of goods from related parties: (continued)*

Apart from cabinets, cases, distribution frames, soft circuit boards and shelters, etc purchased from Shenzhen Zhongxingxin Telecommunications Equipment Company Limited, all commodities purchased by the Company from other connected parties comprised raw materials for communications products.

The prices of connected transactions in respect of the Group's purchase of raw materials from connected parties were conducted after arm's length negotiation on the basis of normal commercial terms. The prices at which the Group made purchases from the connected parties were not higher than the prices at which the connected parties sell similar products to other users in similar quantities.

For the six months ended 30 June 2012, purchases from related parties accounted for 2.18% of the Group's total purchases (Six months ended 30 June 2011: 2.39%).

\* During the period, Shenzhen Zhongxing Development Company Limited, a connected party of the Group, was renamed Zhongxing Development Company Limited.

\*\* Investments in Nationz Technologies Inc. ("Nationz Technologies") was reclassified from investment in an associate to financial assets measured at fair value and dealt with in the profit and loss of the current period of the Company following a change in the Company's intentions for shareholdings in Nationz Technologies, a former associate, in May 2011. The above included only transactions with the Group occurring in the periods in which Nationz Technologies was an associate of the Company.

#### (2) Leasing with related parties:

##### *Lease of properties to related parties*

##### **Six months ended 30 June 2012**

	Property leased	Starting date	Ending date	Lease gain
Zhongxing Development Company Limited	Office	1/1/2012	6/30/2012	848
北京協力超越科技有限公司	Office	1/1/2012	6/30/2012	19
Shenzhen Zhongxing WXT Equipment Company Limited	Office	1/1/2012	3/30/2012	17
Zhongxing Energy (Shenzhen) Company Limited	Office	1/1/2012	3/30/2012	150
Zhongxing Energy (Hubei) Company Limited	Office	1/1/2012	6/30/2012	106

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## VI. THE RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

### 5. Major transactions between the Group and related parties (continued)

#### (2) Leasing with related parties: (continued)

*Lease of properties to related parties (continued)*

#### Six months ended 30 June 2011

	Property leased	Starting date	Ending date	Lease gain
Zhongxing Development Company Limited	Office	1/1/2011	6/30/2011	848
北京協力超越科技有限公司	Office	1/1/2011	6/30/2011	19
Zhongxing Energy (Shenzhen) Company Limited	Office	1/1/2011	6/30/2011	122

*Lease of properties from related parties*

#### Six months ended 30 June 2012

	Property leased	Starting date	Ending date	Lease cost
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Office	4/18/2010	4/17/2013	4,414
Zhongxing Development Company Limited	Office	4/18/2007	4/17/2013	20,323
Chongqing Zhongxing Development Company Limited	Office	1/1/2012	10/22/2014	4,465
三河中興發展有限公司	Office	3/18/2011	3/17/2013	690
三河中興物業服務有限公司	Office	3/18/2011	3/17/2013	177

#### Six months ended 30 June 2011

	Property leased	Starting date	Ending date	Lease cost
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Office	4/18/2010	4/17/2013	4,414
Zhongxing Development Company Limited	Office	4/18/2007	4/17/2013	20,291
Chongqing Zhongxing Development Company Limited	Office	10/23/2008	10/22/2011	2,387
三河中興發展有限公司	Office	3/18/2011	3/17/2013	441
三河中興物業服務有限公司	Office	3/18/2011	3/17/2013	44

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## VI. THE RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

### 5. Major transactions between the Group and related parties (continued)

#### (2) Leasing with related parties: (continued)

*Lease of properties from related parties (continued)*

Income from the aforesaid leases did not have a significant impact on the Group.

Prices at which properties were leased to the Group by connected parties were not higher than market rates for the lease of similar properties in neighbouring areas.

#### (3) Disposal of equity interests to connected parties:

	Six months ended 30 June 2012	Six months ended 30 June 2011
Zhongxing Development Company Limited	25,174	—

In June 2012, the Company disposed of 82% equity interests in Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited, a subsidiary of the Company, to Zhongxing Development Company Limited.

#### (4) Other major related transactions

	Six months ended 30 June 2012		Six months ended 30 June 2011	
	Amount	Percentage (%)	Amount	Percentage (%)
Remuneration of key management personnel	5,556	0.14%	3,899	0.07%

Notes:

- (i) Commercial transactions with related parties: Commercial transactions with related parties was conducted by the Group at market price during the period.
- (ii) Leasing property from related parties: Office space was leased to the aforesaid related parties by the Group during the period and lease income of RMB1,140,000 was recognized in accordance with relevant lease contracts (Six months ended 30 June 2011: RMB989,000). Office space was leased from related parties by the Group during the period and lease costs of RMB30,069,000 was recognized in accordance with relevant lease contracts (Six months ended 30 June 2011: RMB27,577,000).

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## VI. THE RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

### 6. Balances of amounts due from/to related parties

Item	Name of related parties	30 June 2012	31 December 2011
Bills receivable	Zhongxing Intelligent Transport System (Wuxi) Company Limited	1,700	3,260
		<b>1,700</b>	<b>3,260</b>
Trade receivables	ZTE Software Technology (Nanchang) Company Limited	43	52
	Zhongxing Intelligent Transport System (Wuxi) Company Limited	33,387	13,513
	Shenzhen Zhongxing Information Company Limited	6,783	10,084
	Shenzhen Weigao Semiconductor Company Limited	754	1,467
	普興移動通訊設備有限公司	56,870	88,966
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	115	77
	Shenzhen Zhongxing Xinyu FPC Company Limited	85	133
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	395	—
		<b>98,432</b>	<b>114,292</b>
Prepayments	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	483	484
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	—	642
	Shenzhen Zhongxing Information Company Limited	357	393
	上海與德通訊技術有限公司	820	—
		<b>1,660</b>	<b>1,519</b>
Dividends receivable	Shenzhen Zhongxing Xinyu FPC Company Limited	1,500	1,500
		<b>1,500</b>	<b>1,500</b>
Other receivables	Zhongxing Development Company Limited	25,174	—
		<b>25,174</b>	<b>—</b>
Bills payable	Shenzhen Fudekang Electronics Company Limited	66	95
	Wuxi Kaier Technology Company Limited	1,728	7,564
	Shenzhen Weigao Semiconductor Company Limited	6,933	5,083
	Shenzhen Decang Technology Company Limited	10,909	30,711
	Shenzhen Smart Electronics Company Limited	—	71
	Shenzhen Zhongxing Xinyu FPC Company Limited	7,209	1,140
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	848	665
	Mobi Antenna Technologies (Shenzhen) Company Limited	59	—
		<b>27,752</b>	<b>45,329</b>



# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
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## VI. THE RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

### 6. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	30 June 2012	31 December 2011
Trade payables	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	41,918	70,404
	Shenzhen Fudekang Electronics Company Limited	1,600	13,335
	Wuxi Kaier Technology Company Limited	4,575	78,985
	Shenzhen Weigao Semiconductor Company Limited	7,022	11,476
	Shenzhen Decang Technology Company Limited	11,636	2,176
	Shenzhen Jufei Optoelectronics Co., Ltd.	1,240	2,066
	Shenzhen Smart Electronics Company Limited	39	87
	Shenzhen Zhongxing Xinyu FPC Company Limited	9,428	1,236
	Mobi Antenna Technologies (Shenzhen) Company Limited	46,158	34,807
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	26,714	24,958
	Zhongxing Xinzhou Complete Equipment Company Limited	1,134	2,514
	Shenzhen Zhongxing WXT Equipment Company Limited	327	433
	Shenzhen Zhongxing Information Company Limited	3,117	15,021
	Shenzhen Gaodonghua Communication Technology Company Limited	176	176
	Shenzhen Shenglongfeng Industrial Company Limited	5,874	9,585
		<b>160,958</b>	<b>267,259</b>
Advanced receipts	ZTE Software Technology (Nanchang) Company Limited	5,327	5,323
	Zhongxing Intelligent Transport System (Wuxi) Company Limited	2,260	4,924
	普興移動通訊設備有限公司	205	—
	Xi'an Microelectronics Technology Research Institute	2	2
	北京協力超越科技有限公司	77	54
	南京中興群力信息科技有限公司	160	360
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	—	588
	<b>8,031</b>	<b>11,251</b>	
Other payables	Shenzhen Zhongxing Xinyu FPC Company Limited	31	31
	Shenzhen Zhongxing WXT Equipment Company Limited	12	12
	Shenzhen Zhongxing Information Company Limited	48	48
	Zhongxing Energy (Hubei) Company Limited	53	53
	Zhongxing Development Company Limited	215	215
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	2,363	2,363
	Shenzhen Smart Electronics Company Limited	742	—
	<b>3,464</b>	<b>2,722</b>	
Dividends payable	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	211,838	1,149
	<b>211,838</b>	<b>1,149</b>	

Amounts due from/to related parties were interest-free, unsecured and had no fixed term of repayment.

# Notes to Financial Statements

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## VII. SHARE-BASED PAYMENT

### 1. Overview

	30 June 2012	31 December 2011
Total amount of employee service in consideration of share-based payment	1,106,794	1,106,794
	30 June 2012	31 December 2011
Equity-settled share-based payments are as follows:		
Accumulated amount of equity-settled share-based payments in capital reserves	16,168	12,502
Total costs of equity-settled share-based payments recognised for the period	3,666	41,821

### 2. Share incentive scheme

The implementation of the Phase I Share Incentive Scheme (Revised Version dated 5 February 2007) (hereinafter referred to as the "Share Incentive Scheme") commenced upon consideration and approval by shareholders at the first extraordinary general meeting of the Company for 2007 convened on 13 March 2007, after the receipt of a no-comment letter from the China Securities Regulatory Commission. The Company granted 47,980,000 Subject Shares to the Scheme Participants by way of the issue of new shares (A shares), including the grant to 3,435 Scheme Participants of Subject Share quotas with 43,182,000 shares (accounting for 90% of the Subject Share quotas under the Share Incentive Scheme, hereinafter referred to as the "First Award") and the reservation of 4,798,000 Subject Shares accounting for 10% of the Subject Share quotas under the Share Incentive Scheme. At the Twentieth Meeting of the Fourth Session of the Board of Directors held on 25 November 2008, the grant of the full amount of the reserved Subject Share quotas to 794 Scheme Participants (hereinafter referred to as the "Second Award") was considered and approved. The Scheme Participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company and its subsidiaries.

The grant price of the Share Incentive Scheme shall be the closing price of the Company's A shares as quoted on the Shenzhen Stock Exchange on the trading day immediately preceding the date of the Board Meeting at which the Share Incentive Scheme is reviewed. The price of the First Award was RMB30.05 per share. Scheme Participants shall pay the subscription amounts for the Subject Shares on the basis of the purchase of 5.2 Subject Shares for every 10 Subject Shares granted, out of which the subscription amounts for 3.8 Subject Shares shall be funded by Scheme Participants at their own cost and the subscription amounts for 1.4 Subject Shares shall be funded by the conversion of the deferred bonus that Scheme Participants would have received had they participated in the distribution of 2006 deferred bonus, calculated as a percentage of the grant price. The price of the Second Award was RMB21.28 per share. Scheme Participants shall pay the subscription amounts for the Subject Shares on the basis of the purchase of 5.2 Subject Shares for every 10 Subject Shares granted.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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## VII. SHARE-BASED PAYMENT (CONTINUED)

### 2. Share incentive scheme (continued)

The Share Incentive Scheme shall be valid for 5 years, comprising a lock-up period of 2 years and an unlocking period of 3 years:

- (1) The Lock-up Period shall last for a period of two years commencing on the date of approval of the Share Incentive Scheme by shareholders in a general meeting of the Company, during which the Subject Shares granted to Scheme Participants under the Share Incentive Scheme shall be subject to lock-up and shall not be transferable;
- (2) The Unlocking Period shall last for three years following expiry of the Lock-up Period, during which Scheme Participants may, subject to unlocking conditions stipulated by the Share Incentive Scheme being satisfied, apply for unlocking in three tranches: the first unlocking period shall be the first year following the expiry of the Lock-up Period and the number of shares to be unlocked shall not exceed 20% of the aggregate number of Subject Shares granted; the second unlocking period shall be the second year following the expiry of the Lock-up Period and the number of shares to be unlocked shall not exceed 35% of the aggregate number of Subject Shares granted; the third unlocking period shall be the third year following the expiry of the Lock-up Period and the number of shares to be unlocked shall represent all outstanding Subject Shares.

The unlocking of Subject Shares shall be conditional upon the simultaneous fulfilment of certain conditions, including but not limited to the following:

- (1) The Company's financial and accounting report for the most recent accounting year does not contain an audit report in which the certified public accountants indicate an opinion of disapproval or inability to express any opinion;
- (2) The Scheme Participant has not been subject to administrative penalties by the CSRC due to material non-compliance by the Company during the past three years;
- (3) The weighted average rates of return on net assets of ZTE for the years 2007, 2008 and 2009 shall be adopted as the results appraisal conditions to Scheme Participants' application for unlocking the Subject Shares in the first, second and third tranches, respectively. Such rates of return on net assets shall not be less than 10% (before or after extraordinary income/loss items, whichever is lower).

In accordance with the relevant terms of the Share Incentive Scheme, Subject Shares granted but which have lapsed in the absence of unlocking shall be repurchased and cancelled by the Company at the corresponding subscription amounts plus interest calculated at the prevailing call deposit interest rate published by the People's Bank of China.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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## VII. SHARE-BASED PAYMENT (CONTINUED)

### 2. Share incentive scheme (continued)

The fair value of the Subject Shares was arrived at based on the market price of the Company's shares on the date of grant using the Black-Scholes model, which ranged from RMB21.28 to RMB36.81 per share. The aggregate fair value of the Subject Shares amounting to RMB1,106,794,000 is charged to profit and loss and the capital reserve as costs and expenses from the date of grant to the date on which the unlocking conditions are being fulfilled and the shares may be circulated according to the law. The Group has recognised an amount of RMB3,666,000 (six months ended 30 June 2011: RMB34,670,000) at Share Incentive Scheme expenses for the reporting period and an aggregate amount of RMB1,103,737,000 (31 December 2011: RMB1,100,071,000) has been recognised in expenses as at the end of the reporting period on an accumulative basis.

The proposals of profit distribution and capitalisation of capital reserve for 2007 were implemented on 10 July 2008, whereby 4 shares were issued for every 10 shares held. The proposals of profit distribution and capitalisation of capital reserve for 2008 were implemented on 4 June 2009, whereby 3 shares were issued for every 10 shares held. As a result, the Subject Share quotas of the Phase I Share Incentive Scheme were adjusted to 87,323,600 shares accordingly, representing the adjustments of the Subject Share quotas under the First Award and the Second Award to 78,591,240 shares and 8,732,360 shares, respectively. Taking into consideration the departure of or waiver of participation in the Share Incentive Scheme by certain Scheme Participants, it was ratified at the Twenty-sixth Meeting of the Fourth Session of the Board of Directors of the Company held on 6 July 2009 that a total Subject Share quota of 85,050,238 shares had been granted to 4,022 Scheme Participants under the Share Incentive Scheme, and the registration of such shares with China Securities Depository and Clearing Company Limited, Shenzhen Branch was completed on July 2009. The total number of issued share capital of the Company has increased by 85,006,813 shares, after deducting 43,425 Subject Shares which have lapsed.

In accordance with the Share Incentive Scheme, Subject Shares under the First Award shall be subject to a lock-up period of two years commencing on 13 March 2007 (the date on which the Share Incentive Scheme was approved by the shareholders in a general meeting of the Company). As at 12 March 2009, the lock-up period for Subject Shares under the First Award had expired and the unlocking conditions had been fulfilled. For details of the unlocking of Subject Shares, please refer to Note V.34.

# Notes to Financial Statements

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## VIII. CONTINGENT EVENTS

1. In August 2006, a customer instituted arbitration against the Company to demand indemnity from the Company in the amount of PKR762,984,000 (approximately RMB51,175,000). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract to demand for damages. In February 2008, the arbitration authority issued its award ruling that an indemnity of PKR328,040,000 (approximately RMB22,002,000) is to be paid by the Company. On the balance sheet date, the Company has made provisions for the amount. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a counter-claim against the customer's breach of contract.

According to the legal advice of the lawyer engaged by the Company, the litigation is likely to continue for a considerable amount of time. As at the date of approval of the financial statements, the Group had not made any payments of compensation pursuant to the aforesaid judgement. Based on the legal advice from the lawyer engaged by the Company and the progress of the case, the Directors of the Company are of the opinion that the aforesaid arbitration will not have any material adverse impact on the financial conditions and operating results of the Group.

2. In April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth"), an engineering contractor of the Company, demanded the Company to increase the contract amount on the grounds that raw material prices had increased in connection with first a slowdown in work, followed later by total suspension. In September 2008, the Company initiated litigation with the Nanshan District People's Court, pleading for the revocation of the contract and court order of the evacuation of the work sites by the defendant, as well as a penalty payment for work delay in the amount of RMB24,912,000 and damages of RMB11,319,000 payable to the Company. The Nanshan District People's Court handed the first trial judgement in July 2009, ruling that the contract between the Company and China Construction Fifth be revoked and a penalty payment for work delay in the amount of RMB12,817,000 be payable by China Construction Fifth. China Construction Fifth had appealed against the said judgement with the Nanshan District People's Court. As of now, court hearing for the second trial has been completed and the court has ordered trial of the case to be suspended pending final judgement of the case of China Construction Fifth Division at the Intermediate Court.

In July 2009, China Construction Fifth initiated another litigation with the Shenzhen Intermediate People's Court, demanding the Company to make a payment of RMB75,563,000 for raw materials and staff deployment. The said cases are currently in trial.

In October and November 2009, the Group further instituted two complaints with the Nanshan District People's Court, demanding China Construction Fifth to undertake a penalty payment for work delay in the amount of RMB30,615,000 and the payment of RMB39,537,000, representing the amount of work payments in excess of the total contract amount. Both trials are suspended.

Based on the legal opinion furnished by lawyers engaged by the Company and the current progress of the case, the directors of the Company are of the opinion that the aforesaid arbitration will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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## VIII. CONTINGENT EVENTS (CONTINUED)

3. A lawsuit on breach of agreement and infringement of rights was instituted against the Company and its subsidiary ZTE (USA), Inc. ("ZTE (USA)") by Universal Telephone Exchange, Inc. (UTE) at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE (USA) had violated a confidential agreement between UTE and ZTE (USA), for which UTE was seeking a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract as a result of inappropriate actions of the Company and ZTE (USA), for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, the Company has appointed an attorney to defend its case.

On 23 February 2012, the Company and ZTE USA applied to the court for the rejection of UTE's suit on the grounds that there was an arbitration clause under the confidential agreement. On 1 March 2012, the attorney representing UTE concurred with the Company's application to subject the case to the arbitration clause and executed an agreement with the Company. The agreement has been submitted to the court. On 1 May 2012, UTE filed an application for arbitration to the American Arbitration Association in respect of the case. The Company has submitted its defense in response thereto.

Based on the legal opinion furnished by lawyers engaged by the Company and the current progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

4. On 5 April 2011, a certain carrier of Ecuador filed an application for arbitration with the Business Arbitration Tribunal of Guayaquil, Ecuador, claiming quality problems in the construction work undertaken by the Company and demanding from the Company damages of USD23.35 million in aggregate, comprising USD22.25 million for network reconstruction and USD1.10 million for construction quality supervision and management in relation to the entire network. The attorney engaged by the Company has submitted a defense in a timely manner to deny all allegations of the carrier.

Based on the legal opinion furnished by lawyers engaged by the Company and the current progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

5. On 9 December 2011, the Company and ZTE USA, Inc. ("ZTE USA"), its wholly-owned subsidiary, received a petition for arbitration filed by four USA companies and a natural person (together "CLEARTALK") with the International Center for Dispute Resolution under the American Arbitration Association ("ICDR"), whereby CLEARTALK alleged that Company and ZTE USA had committed acts of breach of contract and fraud and demanded contract cancellation of contract and refund of payments and compensation with an aggregate amount of over USD10 million. On 28 December 2011, the Company and ZTE USA received a revised petition for arbitration filed by CLEARTALK with ICDR, whereby CLEARTALK demanded, in respect of the same case, a USD300 million compensation together with the reimbursement of legal fees, litigation costs and other compensation deemed appropriate by the arbitration court.

# Notes to Financial Statements

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## VIII. CONTINGENT EVENTS (CONTINUED)

5. (continued)

Currently the Company and ZTE USA are actively preparing for defense in the lawsuit. Arbitration of the case has been scheduled for 8 October 2012 at Jacksonville, Florida. As the arbitration procedures of the United States do not provide for any limit on the amount compensation demanded by an applicant, the final amount of compensation demanded in this case will not be confirmed until the arbitration tribunal opens.

Based on the legal opinion furnished by lawyers engaged by the Company and the current progress of the above case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

6. On 3 January 2012, ZTE DO BRAZIL LTDA ("ZTE Brazil"), a wholly-owned subsidiary of the Company, received a notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil. It was alleged in the notice that ZTE Brazil had not paid the ICMS tax (a tax payable in respect of the transit of goods and related services between different states) to the tax bureau of Sao Paulo State in respect of goods imported at Espirito Santo State and transported to Sao Paulo State during the period from October 2006 to December 2008. The tax amount outstanding was approximately BRL74.70 million (approximately RMB234 million).

On 20 January 2012, ZTE Brazil submitted an administrative defense to the primary administrative court of the tax bureau of Sao Paulo State, stating that ZTE Brazil had paid the ICMS tax at Espirito Santo State. Pursuant to an agreement between Sao Paulo State and Espirito Santo State in June 2009 and Order No. 56045/2010 of Sao Paulo State, which provides that the agreement shall apply to ICMS tax incurred prior to May 2009, ZTE Brazil is not required to pay ICMS to the tax bureau of Sao Paulo State. On 13 April 2012, ZTE Brazil received the judgment of the primary trial of the primary administrative court of the tax bureau of Sao Paulo State, which endorsed the administrative penalty imposed by the tax bureau of Sao Paulo State. On 11 June 2012, ZTE Brazil filed an appeal with the secondary administrative court of the tax bureau of Sao Paulo State.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

7. As at 30 June 2012, the Group had outstanding guarantees given to banks in respect of performance bonds amounting to RMB9,754,084,000.
8. As at 30 June 2012, the Group provided financial guarantee (including interests accruable) to independent customers for a maximum amount of RMB65,286,000 (31 December 2011: RMB65,213,000). The aforesaid guarantees will expire in December 2013 and September 2018 respectively.

Save as disclosed above, the Company and the Group had no other significant contingent liabilities as at 30 June 2012.

# Notes to Financial Statements

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## IX. COMMITMENTS

	30 June 2012	31 December 2011
Capital commitments		
Contracted but not provided for	499,331	836,989
Authorised by the Board but not yet contracted	21,650,226	21,752,024
	<b>22,149,557</b>	<b>22,589,013</b>
Investment commitments		
Contracted but performance not completed	5,425	945

## X. OTHER SIGNIFICANT MATTERS

### 1. Leases

As lessee:

According to the lease contract signed with lessor, the group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2012	31 December 2011
Within one year (including first year)	335,296	359,270
In the first to second years (including second year)	298,572	288,443
In the second to third years (including third year)	290,564	288,443
After the third year	621,062	885,442
	<b>1,545,494</b>	<b>1,821,598</b>



# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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## X. OTHER SIGNIFICANT MATTERS (CONTINUED)

### 2. Segment reporting

#### *Operating segments*

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- (1) The networks (communication system) segment includes wireless communications, wireline switch and access and optical and data communications;
- (2) The terminals segment engages in the manufacture and sale of mobile phone handsets and data card products;
- (3) The telecommunications software systems, services and other products segment represent the provision of telecommunications software systems such as operation support systems and the provision of fee-based services.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that finance expenses, research and development costs, impairment losses, gain/(losses) from changes in fair values of financial instruments, investment income as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, cash, long-term equity investments, other receivables and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, loans, other payables, bonds payable, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at prevailing market prices.

# Notes to Financial Statements

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## X. OTHER SIGNIFICANT MATTERS (CONTINUED)

### 2. Segment reporting (continued)

#### Operating segments (continued)

	Network (communications systems)	Terminal products	Telecommunications software systems, services and other products	Total
<b>Six months ended 30 June 2012</b>				
Segment revenue				
Telecommunications systems contracts	21,279,581	—	6,814,830	28,094,411
Sales of goods and services	—	14,248,064	299,423	14,547,487
Sub-total	21,279,581	14,248,064	7,114,253	42,641,898
Segment results	3,897,951	383,284	1,150,991	5,432,226
Unallocated gains				1,546,718
Unallocated expenses				(5,452,888)
Finance costs				(831,063)
Losses from fair-value changes				(31,439)
Gains from investment in associates and jointly- controlled entities				(7,922)
Total profit				655,632
Income tax				(263,624)
Net profit				392,008
<b>30 June 2012</b>				
Total assets				
Segment assets	38,641,891	13,647,341	12,918,871	65,208,103
Unallocated assets				41,836,922
Sub-total				107,045,025
Total liabilities				
Segment liabilities	8,475,865	899,195	2,833,676	12,208,736
Unallocated liabilities				68,150,292
Sub-total				80,359,028
<b>Supplemental information</b>				
<b>Six months ended 30 June 2012</b>				
Depreciation and amortisation	362,641	242,812	121,239	726,692
Capital expenditure	673,033	450,640	225,010	1,348,683
Asset impairment losses	229,798	153,865	76,827	460,490

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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## X. OTHER SIGNIFICANT MATTERS (CONTINUED)

### 2. Segment reporting (continued)

#### Operating segments (continued)

	Network (communications systems)	Terminal products	Telecommunications software systems, services and other products	Total
<b>Six months ended</b>				
<b>30 June 2011 (Restated)</b>				
Segment revenue				
Telecommunications systems contracts	20,482,092	—	3,737,548	24,219,640
Sales of goods and services	—	11,214,730	1,578,741	12,793,471
Sub-total	20,482,092	11,214,730	5,316,289	37,013,111
Segment results	3,871,167	456,438	955,462	5,283,067
Unallocated gains				629,119
Unallocated expenses				(3,971,808)
Finance costs				(440,485)
Losses from fair-value changes				(236,551)
Gains from investment in associates and jointly- controlled entities				9,407
Total profit				1,272,749
Income tax				(436,419)
Net profit				836,330
<b>31 December 2011</b>				
Total assets				
Segment assets	40,918,534	13,141,415	11,257,292	65,317,241
Unallocated assets				40,050,873
Sub-total				105,368,114
Total liabilities				
Segment liabilities	9,964,112	767,660	2,741,274	13,473,046
Unallocated liabilities				65,606,293
Sub-total				79,079,339
<b>Supplemental information</b>				
<b>Six months ended</b>				
<b>30 June 2011</b>				
Depreciation and amortisation	355,586	194,309	97,009	646,904
Capital expenditure	1,033,105	564,538	281,844	1,879,487
Asset impairment losses	157,601	86,121	42,995	286,717

# Notes to Financial Statements

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## X. OTHER SIGNIFICANT MATTERS (CONTINUED)

### 2. Segment reporting (continued)

#### *Group information*

#### *Geographic information*

#### External revenue

	Six months ended 30 June 2012	Six months ended 30 June 2011 (Restated)
The PRC	20,884,864	16,526,771
Asia (excluding the PRC)	8,009,957	6,807,562
Africa	3,923,335	5,011,605
Europe, the Americas and Oceania	9,823,742	8,667,173
	<b>42,641,898</b>	<b>37,013,111</b>

External revenue is analysed by geographic locations where the customers are located.

#### Total non-current assets

	30 June 2012	31 December 2011
The PRC	8,801,311	9,530,030
Asia (excluding the PRC)	1,057,307	1,003,877
Africa	323,481	393,940
Europe, the Americas and Oceania	1,446,263	838,736
	<b>11,628,362</b>	<b>11,766,583</b>

Non-current assets are analysed by geographic locations where the assets (excluding financial assets and deferred tax assets) are located.

#### *Information of key customers*

Revenue of telecommunications system contracts and terminal from two major customers amounted to RMB9,933,279,000 (six months ended 30 June 2011: RMB7,658,858,000).

# Notes to Financial Statements

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## X. OTHER SIGNIFICANT MATTERS (CONTINUED)

### 3. Financial instruments and risk analysis

The main financial instruments of the group, except for derivatives, include bank loans, cash and bank balances etc. The main purpose of these financial instruments is to financing for the Group's operation. The Group has many other financial assets and liabilities arising directly from operation, such as trade receivables and trade payables and etc.

The Group entered into forward currency contracts and interest rate swap contracts, with the aim of managing the exchange risk and interest rate risk of the Group's operations

The main risk which comes from the Group's financial instruments is the credit risk, liquidity risk and market risk.

#### *Classification of financial instruments*

The book values of various financial instruments as the balance sheet date were as follows:

#### **30 June 2012**

#### *Financial assets*

	Financial assets at fair value through profit or loss	Loans and other receivables	Available-for-sale financial assets	Total
Cash	—	21,687,036	—	21,687,036
Trading financial assets	91,507	—	—	91,507
Available-for-sale financial assets	—	—	944,905	944,905
Bills receivable	—	3,987,639	—	3,987,639
Trade receivables and long-term receivables	—	25,015,564	—	25,015,564
Factored trade receivables and factored long-term receivables	—	6,513,984	—	6,513,984
Other receivables (excluding dividends receivable)	—	1,792,610	—	1,792,610
Other non-current assets	—	945,207	—	945,207
	<b>91,507</b>	<b>59,942,040</b>	<b>944,905</b>	<b>60,978,452</b>

# Notes to Financial Statements

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## X. OTHER SIGNIFICANT MATTERS (CONTINUED)

### 3. Financial instruments and risk analysis (continued)

#### *Classification of financial instruments (continued)*

##### *Financial liabilities*

	Financial liabilities at fair value through profit or loss	Other financial liabilities	Derivatives designated as effective hedging instruments	Total
Bank loans	—	20,639,582	—	20,639,582
Trading financial liabilities	29,687	—	2,531	32,218
Bills payable	—	11,235,766	—	11,235,766
Trade payables	—	16,121,642	—	16,121,642
Bank advances on factored trade receivables and factored long-term receivables	—	6,513,984	—	6,513,984
Other receivables (excluding dividends receivable)	—	5,777,540	—	5,777,540
Bonds payable	—	9,911,131	—	9,911,131
Long-term factored interest payable	—	351,421	—	351,421
Long-term financial guarantee contract	—	3,689	—	3,689
Other non-current liabilities (non-current portion of hedging instruments)	—	—	10,979	10,979
	<b>29,687</b>	<b>70,554,755</b>	<b>13,510</b>	<b>70,597,952</b>

### 31 December 2011

##### *Financial assets*

	Financial assets at fair value through profit or loss	Loans and other receivables	Available-for-sale financial assets	Total
Cash	—	21,471,967	—	21,471,967
Trading financial assets	95,618	—	—	95,618
Available-for-sale financial assets	—	—	819,972	819,972
Bills receivable	—	3,223,529	—	3,223,529
Trade receivables and long-term receivables	—	24,737,699	—	24,737,699
Factored trade receivables and factored long-term receivables	—	7,779,179	—	7,779,179
Other receivables (excluding dividends receivable)	—	2,117,200	—	2,117,200
Other non-current assets	—	949,666	—	949,666
	<b>95,618</b>	<b>60,279,240</b>	<b>819,972</b>	<b>61,194,830</b>

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

## X. OTHER SIGNIFICANT MATTERS (CONTINUED)

### 3. Financial instruments and risk analysis (continued)

#### *Classification of financial instruments (continued)*

##### *Financial liabilities*

	Financial liabilities at fair value through profit or loss	Other financial liabilities	Derivatives designated as effective hedging instruments	Total
Bank loans	—	18,817,150	—	18,817,150
Trading financial liabilities	2,433	—	2,872	5,305
Bills payable	—	11,149,367	—	11,149,367
Trade payables	—	21,542,885	—	21,542,885
Bank advances on factored trade receivables and factored long-term receivables	—	7,945,814	—	7,945,814
Other payables (excluding accruals)	—	6,779,229	—	6,779,229
Bonds cum Warrants	—	3,884,198	—	3,884,198
Long-term factored interest payable	—	377,059	—	377,059
Long-term financial guarantee contract	—	3,689	—	3,689
Other non-current liabilities (non-current portion of hedging instruments)	—	—	1,248	1,248
	2,433	70,499,391	4,120	70,505,944

#### *Credit risk*

Credit risk is the risk of financial losses arising from default of the counterparty.

The Group only trades with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The Group's other financial assets, which comprise cash and bank balances, available-for-sale financial assets, other receivables and certain derivatives. The Group's credit risk of financial assets and financial guarantee contract arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Although the top five accounted for 37.04% of the total trade receivables, their risk profiles were relatively low and did not give rise to significant concentration of credit risk for the Group.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
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## X. OTHER SIGNIFICANT MATTERS (CONTINUED)

### 3. Financial instruments and risk analysis (continued)

#### *Credit risk (continued)*

For further quantitative disclosures on the Group's credit risk arising from trade receivables, other receivables and long-term trade receivables, please refer to Notes V.4, 6 and 10.

The maturity profile of trade receivables, other receivables and long-term receivables not deemed to have been impaired as at 30 June 2012 was analysed as follows:

#### 30 June 2012

	Total	Not overdue/ not impaired	Overdue for			
			Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years
Trade receivables	23,800,944	6,111,257	16,285,663	1,316,733	87,291	—
Long-term receivables	1,214,620	1,214,620	—	—	—	—
Other receivables	1,795,822	—	1,339,067	374,507	49,287	32,961

#### 31 December 2011

	Total	Not overdue/ not impaired	Overdue for			
			Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years
Trade receivables	23,873,425	5,746,119	16,853,412	1,174,085	99,809	—
Long-term receivables	864,274	864,274	—	—	—	—
Other receivables	2,118,700	—	1,905,644	149,446	42,860	20,750

#### *Liquidity risk*

Liquidity risk refers to the risk of the lack of funds in performing obligations relating to financial liabilities.

The group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity profile of both its financial instruments and financial assets (e.g., trade receivables, bank loans) and projected cash flows from operations.

The Group's objective is to maintain balance between the continuity and flexibility of financing through the use of bank loans, Bonds cum Warrants and other interest-bearing loans. With the exception of the non-current portion of bank borrowings, all borrowings are repayable within one year.



# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

## X. OTHER SIGNIFICANT MATTERS (CONTINUED)

### 3. Financial instruments and risk analysis (continued)

#### Liquidity risk (continued)

The maturity profile of financial assets and financial liabilities based on undiscounted contract cash flow is summarised as follows:

30 June 2012

#### Financial assets

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Indefinite	Total
Trading financial assets	63,486	28,021	—	—	—	—	91,507
Cash	20,543,460	1,143,576	—	—	—	—	21,687,036
Available-for-sale financial assets	—	—	—	—	—	944,905	944,905
Bills receivable	—	3,987,639	—	—	—	—	3,987,639
Trade receivables and long-term receivables	17,689,687	6,111,257	533,576	46,313	788,461	—	25,169,294
Factored trade receivables and factored long-term receivables	—	2,176,989	1,946,399	994,772	1,395,824	—	6,513,984
Other receivables (excluding dividends receivable)	1,792,610	—	—	—	—	—	1,792,610
Other non-current assets	—	—	218,202	155,644	571,361	—	945,207
	40,089,243	13,447,482	2,698,177	1,196,729	2,755,646	944,905	61,132,182

#### Financial liabilities

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Trading financial liabilities	—	34,704	—	—	—	34,704
Bank loans	—	13,593,218	6,441	4,503,249	3,254,687	21,357,595
Bills payable	—	11,235,766	—	—	—	11,235,766
Trade payables	16,121,642	—	—	—	—	16,121,642
Trade receivables and bank advances on factored long-term receivables	—	2,232,710	1,971,729	1,023,347	1,469,798	6,697,584
Other payables (excluding prepaid expenses)	5,777,540	—	—	—	—	5,777,540
Bonds cum Warrants	—	4,284,000	252,000	6,252,000	—	10,788,000
Factored interest payable in relation to the derecognition of trade receivables	—	99,156	87,800	77,666	276,507	541,129
Long-term financial guarantee contract	68,975	—	—	—	—	68,975
Other non-current liabilities (non-current portion of hedging instruments)	—	—	4,474	3,388	726	8,588
	21,968,157	31,479,554	2,322,444	11,859,650	5,001,718	72,631,523

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

## X. OTHER SIGNIFICANT MATTERS (CONTINUED)

### 3. Financial instruments and risk analysis (continued)

#### Liquidity risk (continued)

31 December 2011

#### Financial assets

	Current	Within 1 year	1-2 years	2-3 years	Over 3 years	Indefinite	Total
Cash	20,662,089	809,878	—	—	—	—	21,471,967
Trading financial assets	87,180	8,438	—	—	—	—	95,618
Available-for-sale Investments	—	—	—	—	—	819,972	819,972
Bills receivable	—	3,223,529	—	—	—	—	3,223,529
Trade receivables and long-term receivables	18,127,306	5,746,119	592,475	104,028	261,772	—	24,831,700
Factored trade receivables and factored long-term receivables	—	3,623,096	1,928,864	763,847	1,463,372	—	7,779,179
Other receivables (excluding dividends receivable)	2,117,200	—	—	—	—	—	2,117,200
Other non-current assets	—	—	195,307	131,210	623,149	—	949,666
	40,993,775	13,411,060	2,716,646	999,085	2,348,293	819,972	61,288,831

#### Financial liabilities

	Current	Within 1 year	1-2 years	2-3 years	Over 3 years	Total
Bank loans	—	12,091,433	532,455	3,655,890	3,356,192	19,635,970
Trading financial liabilities	—	5,298	—	—	—	5,298
Bills payable	—	11,149,367	—	—	—	11,149,367
Trade payables	21,542,885	—	—	—	—	21,542,885
Trade receivables and bank advances on factored long-term receivables	—	3,789,731	2,161,907	898,008	1,806,161	8,655,807
Other payables (excluding prepaid expenses)	6,677,470	101,759	—	—	—	6,779,229
Bonds cum Warrants	—	32,000	4,032,000	—	—	4,064,000
Factoring interest payable relating to the derecognition of trade receivables	—	—	92,538	80,700	304,113	477,351
Long-term financial guarantee contract	68,902	—	—	—	—	68,902
Other non-current liabilities (non-current portion of hedging instruments)	—	—	3,465	1,835	(4,157)	1,143
	28,289,257	27,169,588	6,822,365	4,636,433	5,462,309	72,379,952

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

## X. OTHER SIGNIFICANT MATTERS (CONTINUED)

### 3. Financial instruments and risk analysis (continued)

#### *Capital management*

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the six months ended 30 June 2012.

The Group monitors capital using a gearing ratio, which is interest-bearing bank borrowings divided by the sum of total equity and interest-bearing bank borrowings. The gearing ratios as at the ends of the reporting periods were as follows:

	<b>30 June 2012 RMB'000</b>	31 December 2011 RMB'000
Interest-bearing bank borrowings	<b>20,639,582</b>	18,817,150
Total equity	<b>26,685,997</b>	26,288,775
Total equity and interest-bearing bank borrowings	<b>47,325,579</b>	45,105,925
Gearing ratio	<b>44%</b>	42%

#### *Market risk*

Market risk refers to the risk of fluctuations in the fair value or future cash flow of financial instruments as a result of changes in market prices. Market risks include mainly interest rate risks and exchange rate risks.

#### *Interest rate risk*

Interest rate risk is the risk that the fair value/future cash flow of a financial instrument will fluctuate because of changes in market interest rate. The Group's risk exposure to movements in market interest rates is mainly related to the Group's long-term liability bearing interest at floating rates.

On 30 June 2012, the bank loans of the Group and the Company including fixed rate debts and floating debts based on LIBOR. The Group and the Company had no significant concentration of interest rate risk.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
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## X. OTHER SIGNIFICANT MATTERS (CONTINUED)

### 3. Financial instruments and risk analysis (continued)

#### *Interest rate risk (continued)*

The Group's interest risk policy is to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The Group's policy is to maintain the fixed interest rate between 2% and 14%. In addition, the Group borrowed a USD900 million loan at floating interest rates in 2011. The Group intends to enter into interest rate swaps with a nominal principal amount of no more than USD900 million at an appropriate timing as a hedge against the said USD loan, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. As at 30 June 2012, taking into account interest rate swaps for a nominal principal amount of USD100 million (31 December 2011: USD100 million) already executed, approximately 29.83% (31 December 2011: 26%) of the Group's interest bearing borrowings were subject to interests at fixed rates.

Interest-bearing borrowings with floating interest rate were mainly denominated in USD. The sensitivity analysis of interest rate risks is set out in the following table, reflecting the impact of reasonable and probable change in interest rates on net profit (through the impact on floating rate loans) and shareholders' equity assuming that other variables remain constant and taking into account the effect of interest rate swaps.

	Increase/ (decrease) in basis points	Increase/ (decrease) in net profit	Increase/ (decrease) in shareholders' equity*
For the six months ended 30 June 2012	<b>0.25%</b> <b>(0.25%)</b>	<b>(18,102)</b> <b>18,102</b>	<b>3,285</b> <b>(3,285)</b>
For the six months ended 30 June 2011	0.25% (0.25%)	(13,405) 13,405	— —

\* Excluding retained earnings.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
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## X. OTHER SIGNIFICANT MATTERS (CONTINUED)

### 3. Financial instruments and risk analysis (continued)

#### *Foreign currency risk*

Foreign currency risk is the risk of volatility in the fair value of financial instruments or future cash flow resulting from changes in foreign currency exchange rates.

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is denominated in USD and RMB and certain portion of the bank loans is denominated in USD. The Group tends to avoid foreign currency exchange risk or provide for allocation terms when arriving at purchase and sales contracts to minimize its transactional currency exposures. The Group takes rolling forecast on foreign currency revenue and expenses, matches the currency and amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation.

The following table demonstrates the sensitivity of a reasonably possible change in interest rates may lead to the changes in the Group's profit before tax, with all other variables held constant, as at the balance sheet date.

	Increase/ decrease in US dollars exchange rate	Effect on total profit
Six months ended 30 June 2012		
Weaker RMB against USD	+3%	(33,373)
Stronger RMB against USD	-3%	33,373
Six months ended 30 June 2011		
Weaker RMB against USD	+3%	149,711
Stronger RMB against USD	-3%	(149,711)

	Increase/ decrease in EUR dollars exchange rate	Effect on total profit
Six months ended 30 June 2012		
Weaker RMB against EUR	+5%	189,086
Stronger RMB against EUR	-5%	(189,086)
Six months ended 30 June 2011		
Weaker RMB against EUR	+5%	151,236
Stronger RMB against EUR	-5%	(151,236)

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

## X. OTHER SIGNIFICANT MATTERS (CONTINUED)

### 3. Financial instruments and risk analysis (continued)

#### *Fair value*

The fair values of the financial instruments of the Group did not differ significantly from their book values.

Fair value refers to the amount at which assets are exchanged and debts settled between two informed and willing parties in an arm's length transaction. Methods and assumptions adopted in the estimation of fair values are explained as follows:

The fair values of cash, bills receivable, trade receivables, bills payable and trade payables approximate their carrying values given relatively short outstanding periods.

The fair values of long-term receivables, long/short-term loans, bonds payable are determined on the basis of discounted future cash flow. The discount rate adopted is the rate of market yield for other financial instruments with substantially identical contract terms and characteristics.

The fair values of listed financial instruments are determined on the basis of market value.

The Group has entered into derivative financial instruments with a number of counterparties (who are mainly financial institutions with sound credit rating). Derivative financial instruments include mainly forward exchange contracts, which are measured using valuation techniques similar to those adopted for forward pricing. The valuation model covers a number of inputs observable in the market, such as the credit quality of the counterparty, spot and forward exchange rates and interest rate curves.

The carrying value of a forward exchange contract is identical with its fair value. As at 30 June 2012, the mark-to-market value of derivative financial assets represents the net value after offsetting credit valuation adjustments attributable to the risk of counterparty default.

The Group's measurement of fair value is distinguished into three levels:

The first level is the measurement of fair value as prices of identical assets or liabilities quoted in an active market on the date of measurement, where such prices are available; the second level is the measurement of fair value as prices of similar assets or liabilities quoted in an active market or prices of identical or similar assets or liabilities quoted in an inactive market on the date of measurement, after necessary adjustment, where such prices are available; the third level is the measurement of fair value on the basis of other parameters that reflect market participants' valuation of the assets or liabilities concerned, if no comparable traded market prices for identical or similar assets are available.

Financial instruments measured at fair value:

#### **Six months ended 30 June 2012**

	Level 1	Level 2	Level 3	Total
Trading financial assets	63,486	28,021	—	91,507
Available-for-sale financial assets	—	33,460	—	33,460
Derivative financial liabilities	—	(43,197)	—	(43,197)

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
Currency: RMB'000  
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## XI. COMPARATIVE DATA

Certain comparative data have been restated to conform with the presentation requirements for the current period.

## XII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

### 1. Trade receivables

	30 June 2012			31 December 2011		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
RMB	14,094,919	1.0000	14,094,919	13,028,980	1.0000	13,028,980
USD	2,268,381	6.3249	14,347,283	2,405,289	6.3009	15,155,485
EUR	428,578	7.8710	3,373,337	474,344	8.1625	3,871,833
Others			1,714,090			1,079,726
			<b>33,529,629</b>			<b>33,136,024</b>

Aging analysis of trade receivables:

	30 June 2012	31 December 2011
Within 1 year	27,242,933	26,336,644
1 to 2 years	3,239,683	3,650,163
2 to 3 years	2,102,462	1,806,894
Over 3 years	3,095,144	3,370,060
	<b>35,680,222</b>	<b>35,163,761</b>
Less: Bad debt provision for trade receivables	2,150,593	2,027,737
	<b>33,529,629</b>	<b>33,136,024</b>

	30 June 2012				30 June 2011			
	Book balance Amount	Bad debt provision Percentage (%)	Bad debt provision Amount	Charge ratio (%)	Book balance Amount	Bad debt provision Percentage (%)	Bad debt provision Amount	Charge ratio (%)
Individually significant and for which bad debt provision has been separately made	535,544	2	535,544	100	531,664	2	531,664	100
For which bad debt provision has been collectively made								
0-6 months	21,266,668	60	—	—	21,905,651	62	—	—
7-12 months	5,971,882	17	153,750	3	4,397,928	13	105,230	2
13-18 months	1,940,661	5	221,109	11	2,262,376	6	269,427	12
19-24 months	1,254,026	4	279,557	22	1,344,243	4	148,503	11
2-3 years	1,957,590	5	395,614	20	1,740,232	5	458,397	26
Over 3 years	2,753,851	7	565,019	21	2,981,667	8	514,516	17
	<b>35,144,678</b>	<b>98</b>	<b>1,615,049</b>	<b>5</b>	<b>34,632,097</b>	<b>98</b>	<b>1,496,073</b>	<b>4</b>
	<b>35,680,222</b>	<b>100</b>	<b>2,150,593</b>	<b>6</b>	<b>35,163,761</b>	<b>100</b>	<b>2,027,737</b>	<b>6</b>

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

## XII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

### 1. Trade receivables (continued)

Movements in bad-debt provisions for trade receivables:

Opening balance	Provision for the period	Reduction during the period		Exchange rate difference	Closing balance
		Write-back	Write-off		
2,027,737	127,322	—	(4,466)	—	2,150,593

As at 30 June 2012, trade receivables from top five accounts were as follows:

Customer	Amount	As a percentage of total trade receivables
Customer 1	3,997,990	11.20%
Customer 2	3,039,695	8.52%
Customer 3	2,882,515	8.08%
Customer 4	2,727,995	7.65%
Customer 5	1,976,000	5.54%
Total	14,624,195	40.99%

The top three accounts of the above trade receivables represented amounts receivable from third-party customers of the Company and the remaining two accounts represented amounts receivable from the Company's subsidiaries, which had been overdue for 0 to 36 months.

As at 30 June 2012, there was no outstanding amount due from shareholders holding 5% or more in the voting shares (31 December 2011: RMB102,479,000).

Transfer of trade receivables not qualified for derecognition is separately reflected in "factored trade receivables" and "Bank advances on factored trade receivables". The amounts were RMB2,170,765,000 and RMB2,170,765,000 respectively (31 December 2011: RMB3,306,558,000 and RMB3,473,193,000 respectively).



# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
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## XII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

### 2. Other receivables

The aging analysis of other receivables is as follows:

	30 June 2012	31 December 2011
Within 1 year	3,325,142	3,181,643
1 to 2 years	1,812,576	63,203
2 to 3 years	178,661	115,459
Over 3 years	232,859	117,401
	<b>5,549,238</b>	<b>3,477,706</b>
Less: Bad debt provision for other receivables	—	—
	<b>5,549,238</b>	<b>3,477,706</b>

As at 30 June 2012, other receivables from top five accounts were as follows:

Customer	Amount	As a percentage of total other receivables
Customer 1	1,217,094	21.94%
Customer 2	910,560	16.41%
Customer 3	698,262	12.58%
Customer 4	279,333	5.03%
Customer 5	264,665	4.77%
Total	<b>3,369,914</b>	<b>60.73%</b>

The above other receivables from top five accounts represented amounts receivable from subsidiaries of the Company which had been overdue for 0 to 36 months.

As at 30 June 2012, there was no outstanding amount due from shareholders holding 5% or more in the voting shares (31 December 2011: Nil).

### 3. Available-for-sale financial assets

	30 June 2012	31 December 2011
Available-for-sale equity instruments	<b>212,448</b>	212,448

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

## XII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

### 4. Long-term trade receivables

	30 June 2012	31 December 2011
Loans granted to subsidiaries (Note 1)	2,291,020	2,863,837
Installment payments for the provision of telecommunication system construction projects	1,313,737	821,688
Less: Bad debt provision for long-term receivables	51,971	51,774
	<b>3,552,786</b>	<b>3,633,751</b>

Note 1: Loans granted to subsidiaries were interest-free, unsecured and had no fixed term of repayment. The Directors are of the view that the advances were deemed loans similar to equity granted to subsidiaries.

Movements in bad debt provision for long-term receivables during the period are as follows:

Opening balance	Provision for the period	Decrease during the period		Exchange rate movements	Closing balance
		Write-back	Write-off		
51,774	197	—	—	—	51,971

Transfer of trade receivables not qualified for derecognition was separately classified as “Factored long-term trade receivables” and “Bank advances on factored long-term trade receivables” amounting to RMB4,336,321,000 (31 December 2011: RMB4,059,772,000).

### 5. Long-term equity investments

	30 June 2012	31 December 2011
Equity method		
Joint ventures (1)	43,047	43,940
Associates (2)	307,161	321,562
Cost method		
Subsidiaries (3)	4,788,440	4,481,184
Less: Provision for impairment in long-term equity investments (4)	92,315	96,215
	<b>5,046,333</b>	<b>4,750,471</b>

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

## XII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

### 5. Long-term equity investments (continued)

#### (1) Joint Ventures

	Investment cost	Opening balance	Increase/decrease during the period	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
普興移動通訊設備有限公司*	43,500	43,940	(893)	43,047	33.85%	50.00%	—

\* The Group's shareholding percentage in 普興移動通訊設備有限公司 was inconsistent with the percentage of its voting rights in this investee, as the percentage of voting rights had been stipulated by the articles of association of this company.

#### (2) Associates

	Investment cost	Opening balance	Increase/decrease during the period	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
KAZNURTEL Limited Liability Company	3,988	2,477	—	2,477	49%	49%	—
Zhongxing Software Technology (Nanchang) Company Limited	4,500	—	—	—	30%	30%	—
Zhongxing Energy Company Limited	300,000	287,788	(20,312)	267,476	23.26%	23.26%	—
思卓中興(杭州)科技有限公司	22,845	19,859	127	19,986	49%	49%	—
上海中興群力信息科技有限公司	2,000	11,438	384	11,822	40%	40%	—
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	5,400	—	5,400	5,400	18%	18%	—
		321,562	(14,401)	307,161			—

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
Currency: RMB'000  
(English translation for reference only)

## XII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

### 5. Long-term equity investments (continued)

#### (3) Subsidiaries

	Investment cost	Opening balance	Increase/decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
Shenzhen Zhongxing Software Company Limited	156,500	156,500	—	156,500	74%	74%	1,373,421
Shenzhen Changfei Investment Company Limited	15,300	15,300	—	15,300	51%	51%	—
Nanjing ZTEsoft Technology Company Limited	45,489	45,489	—	45,489	75%	75%	—
Shenzhen Zhongxing Netview Technology Company Limited	6,000	6,000	—	6,000	80%	80%	—
Shenzhen Special Equipment Company Limited	540	540	—	540	54%	54%	—
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited	5,100	5,100	—	5,100	51%	51%	—
Shenzhen ZTE Kangxun Telecom Company Limited	580,000	580,000	—	580,000	90%	90%	129,891
ZTE Microelectronics Technology Company Limited	15,674	15,674	—	15,674	90%	90%	231,240
Anhui Wantong Postal and Telecom Company Limited	11,329	11,329	—	11,329	51%	51%	—
Wuxi Zhongxing Optoelectronics Technology Company Limited	6,500	6,500	—	6,500	65%	65%	1,950
ZTE Integration Telecom Limited	41,250	41,250	—	41,250	80%	80%	—
Shenzhen Zhongxing Mobile Technology Company Limited	31,666	31,666	—	31,666	80%	80%	—
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	—	45,000	99%	99%	—
Xi'an Zhongxing Jing Cheng Communication Company Limited	10,500	10,500	—	10,500	70%	70%	—
Guangdong New Pivot Technology & Service Company Limited	4,000	4,000	—	4,000	80%	80%	—
深圳市興意達通訊技術有限公司	5,000	5,000	—	5,000	100%	100%	—
Yangzhou Zhongxing Mobile Telecom Company Limited	—	3,900	(3,900)	—	—	—	—
Shenzhen Zhongliancheng Electronic Development Company Limited	2,100	2,100	—	2,100	100%	100%	—
Xi'an Zhongxingxin Software Company Limited	600,000	600,000	—	600,000	100%	100%	—
Shenzhen Zhongxing ICT Company Limited	24,000	24,000	—	24,000	80%	80%	—
ZTE (Hangzhou) Company Limited	100,000	100,000	—	100,000	100%	100%	—
中興國通通訊裝備技術(北京)有限公司	15,200	15,200	—	15,200	76%	76%	—
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	—	30,000	(30,000)	—	—	—	1,617
Shenzhen Guoxin Electronics Development Company Limited	29,700	29,700	—	29,700	99%	99%	—
PT. ZTE Indonesia	15,276	15,276	—	15,276	100%	100%	—
Telrise(Cayman) Telecom Limited	21,165	21,165	—	21,165	100%	100%	—
Wistron Telecom AB (Europe Research Institute)	2,137	2,137	—	2,137	100%	100%	—
ZTE (Malaysia) Corporation SDN. BHD	496	496	—	496	100%	100%	—
ZTE Holdings (Thailand) Co., Ltd	10	10	—	10	100%	100%	—
ZTE (Thailand) Co., Ltd.	5,253	5,253	—	5,253	100%	100%	—
ZTE (USA) Inc.	190,133	5,395	184,738	190,133	100%	100%	—
ZTE Corporation Mexico S. DE R.L DE C.V.	42	42	—	42	100%	100%	—
ZTE Do Brasil LTDA	18,573	18,573	—	18,573	100%	100%	—
ZTE Romania S.R.L	827	827	—	827	100%	100%	—
ZTE Telecom India Private Ltd.	310,486	304,068	6,418	310,486	100%	100%	—
ZTE-Communication Technologies, Ltd.	6,582	6,582	—	6,582	100%	100%	—
Zhongxing Telecom Pakistan (Private) Ltd.	5,279	5,279	—	5,279	93%	93%	—
Closed Joint Stock Company TK Mobile	16,871	16,871	—	16,871	51%	51%	—
ZTE (H.K.) Limited	449,362	449,362	—	449,362	100%	100%	—
Shenzhen ZTE Capital Management Company Limited	6,600	6,600	—	6,600	55%	55%	—
ZTE (Heyuan) Company Limited	500,000	500,000	—	500,000	100%	100%	—
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise	300,000	300,000	—	300,000	30%	N/A	—
ZTE Group Finance Co., Ltd	1,000,000	1,000,000	—	1,000,000	100%	100%	—
深圳市百維技術有限公司	10,000	10,000	—	10,000	100%	100%	—
Shenzhen Zhongxing Supply Chain Co., Ltd	28,500	28,500	—	28,500	95%	95%	—
北京中興網捷科技有限公司	150,000	—	150,000	150,000	75%	75%	—
		4,481,184	307,256	4,788,440			1,738,119

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

## XII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

### 5. Long-term equity investments (continued)

#### (4) Provision for long-term equity investments

	Opening balance	Increase/decrease during the year	Closing balance
ZTE (USA) Inc.	5,381	—	5,381
Telrise (Cayman) Telecom Limited	12,970	—	12,970
Shenzhen Guoxin Electronics Development Company Limited	23,767	—	23,767
Yangzhou Zhongxing Mobile Telecom Company Limited	3,900	(3,900)	—
Shenzhen Zhongxing Mobile Technology Company Limited	17,657	—	17,657
ZTE Do Brasil LTDA	10,059	—	10,059
ZTE Integration Telecom Limited	4,591	—	4,591
Wistron Telecom AB (Europe Research Institute)	2,030	—	2,030
ZTE Corporation Mexico S. DE R.L DE C.V.	41	—	41
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	—	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656	—	9,656
ZTE Holdings (Thailand) Co., Ltd	10	—	10
ZTE (Thailand) Co., Ltd.	205	—	205
ZTE Telecom India Private Ltd.	1,654	—	1,654
ZTE Romania S.R.L	827	—	827
ZTE (Malaysia) Corporation SDN. BHD	496	—	496
	<b>96,215</b>	<b>(3,900)</b>	<b>92,315</b>

### 6. Operating revenue and costs

Operating revenue is analysed as follows:

	Six months ended 30 June 2012	Six months ended 30 June 2011
Revenue	36,533,102	30,862,524
Other income	37,391	104,078
	<b>36,570,493</b>	<b>30,966,602</b>

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

## XII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

### 6. Operating revenue and costs (continued)

Operating cost is analysed as follows:

	Six months ended 30 June 2012	Six months ended 30 June 2011
Costs of sales	33,554,616	27,599,965
Other operating expenses	276	6,860
	<b>33,554,892</b>	<b>27,606,825</b>

For the six months ended 30 June 2012, operating revenue from the top five customers was as follows:

Name of customer	Amount	As a percentage of operating revenue %
Customer 1	5,040,526	13.78%
Customer 2	4,324,904	11.83%
Customer 3	4,004,959	10.95%
Customer 4	3,705,038	10.13%
Customer 5	1,976,000	5.41%
Total	19,051,427	52.10%

Sales to the top five customers of the Group generated revenue of RMB19,051,427,000 in 2012 (2011: RMB12,456,662,000), accounting for 52.10% of the Company's revenue (2011: 40.36%).

### 7. Investment income

	Six months ended 30 June 2012	Six months ended 30 June 2011
Investment loss from long-term equity investment under equity method	(20,693)	(1,942)
Investment gains from long-term equity investment under cost method*	1,738,995	1,737,672
Investment gains/(losses) from the disposal of available-for-sale financial assets	13,285	(10,013)
Investment gains from the disposal of long-term equity investment	574	1,089,148
	<b>1,732,161</b>	<b>2,814,865</b>

\* Please refer to Note XII.5 – Long-term equity investments (3) for a detailed breakdown of long-term equity investments under the cost method.

As at 30 June 2012, the Company was not subject to significant restrictions in remitting its investment income.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

## XII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

### 8. Supplemental information on the cash flow statement

Reconciliation of net profit to cash flow from operating activities:

	Six months ended 30 June 2012	Six months ended 30 June 2011
Net profit	(1,168,888)	335,760
Add: Impairment losses	324,196	218,236
Depreciation of fixed assets	339,691	303,621
Amortisation of intangible assets and development cost	92,675	55,909
Loss on disposal of fixed assets, intangible assets and other long term assets	8,411	1,588
Loss from changes in fair value	21,685	181,464
Finance expenses	343,056	397,769
Investment income	(1,732,161)	(2,814,865)
Increase in deferred tax assets	25,330	18,322
Increase in inventories	2,149,174	(483,113)
Increase in operating receivables	(3,355,931)	(4,169,914)
(Increase)/decrease in operating payables	(552,696)	1,877,358
Equity settled share expenses	3,666	34,670
(increase)/decrease in cash subject to ownership restrictions	86,148	(164,583)
Net cash flows from operating activities	<b>(3,415,644)</b>	<b>(4,207,778)</b>

## XIII. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by way of a resolution of the Board of Directors of the Company on 22 August 2012.

# Supplemental Information on the Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

## 1. BREAKDOWN OF EXTRAORDINARY GAINS/LOSSES

	Six months ended 30 June 2012
Loss from the disposal of non-current assets	(12,068)
Investment gains from disposal of long-term equity investment	64,453
Fair-value gains/losses in trading financial assets and trading financial liabilities and investment gains from the disposal of trading financial assets, trading financial liabilities and financial assets available-for-sale, excluding effective hedging related to the normal operations of the Company	801
Net amount of other non-operating income and expenses	304,765
Effect of income tax	53,693
	<b>304,258</b>

Note: The Group recognizes extraordinary items in accordance with “Explanatory Announcement for Information Disclosure by Issuers of Public Securities No. 1 – Extraordinary Items” (CSRC Announcement [2008] No. 43). The extraordinary gain/(loss) items within the definition of extraordinary gain/(loss), and the extraordinary gain/(loss) items defined as ordinary gain/(loss) items:

	Six months ended 30 June 2012	Reason
Refund of VAT on software products	1,152,837	In line with national policies and received on an ongoing basis

## 2. RECONCILIATION OF DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG FINANCIAL REPORTING STANDARDS

There were no significant differences between financial statements prepared under PRC ASBEs and under HKFRSs in the reporting period.



# Supplemental Information on the Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

## 3. RETURN ON NET ASSETS AND EARNINGS PER SHARE

30 June 2012

	Weighted average return on net assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	1.00%	RMB0.07	RMB0.07
Net profit attributable to ordinary shareholders of the Company after extraordinary items	(0.24%)	RMB(0.02)	RMB(0.02)

30 June 2011

	Weighted average return on net assets (%)	Earnings per share (Restated)	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	3.29%	RMB0.23	RMB0.22
Net profit attributable to ordinary shareholders of the Company after extraordinary items	(0.33%)	RMB(0.02)	RMB(0.02)

## 4. ANALYSIS OF MOVEMENTS IN CERTAIN FINANCIAL STATEMENT ITEMS

Balance sheet Items	Analysis of reasons
Factored trade receivables	Mainly attributable to the fulfillment of conditions for derecognition for certain factored trade receivables
Long-term trade receivables	Mainly attributable to the offering of more favourable payment terms to customers
Investment properties	Mainly attributable to the reclassification of buildings used by the Company as leased properties
Construction in progress	Mainly attributable to the reclassification of construction in progress as fixed assets for the period
Trading financial liability	Mainly Attributable to losses arising from the revaluation of fair value for certain derivatives at the end of the investment period
Bank advances on factored trade receivables	Mainly attributable to the fulfillment of conditions for derecognition for certain factored trade receivables
Dividend payable	Mainly reflecting the dividend declared for the period but not yet paid
Deferred income	Mainly attributable to the increase in asset-related government subsidies
Bonds payable	Mainly attributable to the issue of bonds by the Company during the period
Deferred tax liabilities	Mainly attributable to the deferred income tax liability in respect of investment gains derived from proceeds from the issue and listing of new shares in Jufei.

# Supplemental Information on the Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
 (English translation for reference only)

## 4. ANALYSIS OF MOVEMENTS IN CERTAIN FINANCIAL STATEMENT ITEMS (CONTINUED)

Income statement Items	Analysis of reasons
Finance costs	Mainly attributable to exchange losses during the period as compared to exchange gains during period last year arising from exchange rate volatility
Asset impairment losses	Mainly attributable to the increase in provision for inventories during the period
Gains/losses from change in fair values	Mainly attributable to losses arising from the revaluation of fair value for certain derivatives at the end of the investment period for the same period last year
Investment income	Mainly attributable to the gains on equity disposal of Nationz Technologies for the same period last year, and the substantial decrease in investment income for the period under review
Non-operating income	Mainly attributable to the increase in VAT rebates for software products
Non-operating expenses	Mainly attributable to the decrease in compensation expenses
Non-controlling interests	Mainly attributable to the increase in profit for the reporting period of certain subsidiaries
Other comprehensive income	Mainly attributable to the appreciation of investment properties upon valuation
Comprehensive income attributable to non-controlling interests	Mainly attributable to increase in profit for the reporting period of certain subsidiaries
Cash flow statement Items	Analysis of reasons
Net cash flow from operating activities	Mainly attributable to the increase in cash received for the sales of goods and services provided
Net cash flow from financing activities	Mainly attributable to the increase in cash outlay for the repayment of borrowings

# Consolidated Statement of Comprehensive Income

(Prepared under HKFRSs)  
Six months ended 30 June 2012

	Notes	Six months ended 30 June 2012 (unaudited) RMB'000	Six months ended 30 June 2011 (unaudited) (restated) RMB'000
<b>Revenue</b>	4	42,641,898	37,013,111
Cost of sales		(32,140,656)	(26,900,766)
Gross profit		10,501,242	10,112,345
Other income and gains	4	1,713,512	2,116,556
Research and development costs		(4,025,433)	(3,664,474)
Selling and distribution costs		(5,402,346)	(4,983,647)
Administrative expenses		(1,153,256)	(1,260,362)
Other expenses		(408,645)	(547,406)
Finance costs	6	(561,520)	(509,670)
Share of profits and losses of:			
Jointly-controlled entities		(893)	—
Associates		(7,029)	9,407
<b>Profit before tax</b>	5	655,632	1,272,749
Income tax expense	7	(263,624)	(436,419)
<b>Profit for the period</b>		392,008	836,330
<b>Attributable to:</b>			
Owners of the parent		244,875	769,271
Non-controlling interests		147,133	67,059
		392,008	836,330
<b>Earnings per share attributable to ordinary equity holders of the parent</b>	9		
Basic		RMB0.07	RMB0.23
Diluted		RMB0.07	RMB0.22
<b>Other comprehensive income</b>			
Cash flow hedges — Effective portion of changes in fair value of hedging instruments arising during the period		(9,344)	—
Changes in fair value of available-for-sale investments		5,919	—
Exchange differences on translation of foreign operations		(204,646)	(2,303)
Appreciation of investment properties upon valuation		932,670	—
<b>Other comprehensive income for the period, net of tax</b>		724,599	(2,303)
<b>Total comprehensive income — for the period</b>		1,116,607	834,027
<b>Attributable to:</b>			
Owners of the parent		954,853	764,607
Non-controlling interests		161,754	69,420
		1,116,607	834,027

# Consolidated Statement of Financial Position

(Prepared under HKFRSs)  
30 June 2012

	Notes	30 June 2012 (unaudited) RMB'000	31 December 2011 (audited) RMB'000
<b>Non-current assets</b>			
Property, plant and equipment		8,251,940	8,646,027
Prepaid land lease payments		892,649	862,030
Intangible assets		2,464,163	2,239,648
Investment properties		1,595,977	—
Investments in jointly-controlled entities		45,302	46,195
Investments in associates		527,594	467,896
Available-for-sale investments		944,905	819,972
Long-term trade receivables	11	1,214,620	864,274
Factored long-term trade receivables		4,336,995	4,156,083
Deferred tax assets		1,188,745	1,128,836
Pledged deposits		945,207	949,666
Other non-current assets		824,981	691,240
Total non-current assets		23,233,078	20,871,867
<b>Current assets</b>			
Prepaid land lease payments		19,610	18,878
Inventories		13,055,460	14,988,379
Amount due from customers for contract works	10	16,635,456	14,588,455
Trade and bills receivables	11	27,788,583	27,096,954
Factored trade receivables		2,176,989	3,623,096
Prepayments, deposits and other receivables		4,161,284	5,028,840
Trading financial assets		91,507	95,618
Pledged deposits		1,102,611	724,878
Time deposits with original maturity of over three months		40,965	85,000
Cash and cash equivalents		20,543,460	20,662,089
Total current assets		85,615,925	86,912,187
<b>Current liabilities</b>			
Trade and bills payables	12	27,357,408	32,692,252
Amount due to customers for contract works	10	3,003,622	3,068,804
Other payables and accruals		12,804,364	13,407,890
Interest-bearing bank borrowings		13,390,954	11,876,448
Bank advances on factored trade receivables		2,176,989	3,789,731
Tax payable		410,887	880,275
Derivative financial instruments		32,218	5,305
Dividends payable		860,627	170,046
Bonds cum warrants due within one year		3,934,935	—
Total current liabilities		63,972,004	65,890,751
<b>Net current assets</b>		<b>21,643,921</b>	<b>21,021,436</b>
<b>Total assets less current liabilities</b>		<b>44,876,999</b>	<b>41,893,303</b>

# Consolidated Statement of Financial Position (continued)

(Prepared under HKFRSs)  
30 June 2012

Notes	30 June 2012 (unaudited) RMB'000	31 December 2011 (audited) RMB'000
<b>Total assets less current liabilities</b>	<b>44,876,999</b>	41,893,303
<b>Non-current liabilities</b>		
Derivative financial instruments	10,979	1,248
Interest-bearing bank borrowings	7,248,628	6,940,702
Bank advances on factored long-term trade receivables	4,336,995	4,156,083
Bonds payable	5,976,196	3,884,198
Deferred tax liabilities	22,040	—
Financial guarantee contract	3,689	3,689
Provision for retirement benefits	48,221	48,716
Other long-term payables	544,254	569,892
Total non-current liabilities	<b>18,191,002</b>	15,604,528
<b>Net assets</b>	<b>26,685,997</b>	26,288,775
<b>Equity</b>		
<b>Equity attributable to owners of the parent</b>		
Issued capital	3,440,078	3,440,078
Shares subject to lock-up under the Share Incentive Scheme	(40,537)	(40,537)
Reserves	21,104,044	20,145,986
Proposed final dividend	—	686,190
	<b>24,503,585</b>	24,231,717
<b>Non-controlling interests</b>	<b>2,182,412</b>	2,057,058
Total equity	<b>26,685,997</b>	26,288,775

**Huo Weigui**  
Director

**Shi Lirong**  
Director

# Consolidated Statement of Changes in Equity

(Prepared under HKFRSs)  
Six months ended 30 June 2012

	Attributable to shareholders of the parent company											Total equity (unaudited) RMB'000
	Issued capital (unaudited) RMB'000	Capital reserve (unaudited) RMB'000	Hedging reserve (unaudited) RMB'000	Share incentive scheme reserve (unaudited) RMB'000	Shares subject to lock-up under the Share incentive scheme (unaudited) RMB'000	Statutory reserves (unaudited) RMB'000	Exchange fluctuation reserve (unaudited) RMB'000	Retained profits (unaudited) RMB'000	Proposed final dividends (unaudited) RMB'000	Total (unaudited) RMB'000	Non-controlling interests (unaudited) RMB'000	
At 1 January 2012	3,440,078	8,531,425	(4,120)	12,502	(40,537)	1,587,891	(527,696)	10,545,984	686,190	24,231,717	2,057,058	26,288,775
Profit for the period	–	–	–	–	–	–	–	244,875	–	244,875	147,133	392,008
Other comprehensive income for the period:												
Cash flow hedges, net of tax	–	–	(9,344)	–	–	–	–	–	–	(9,344)	–	(9,344)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	(219,267)	–	–	(219,267)	1,166	(218,101)
Changes in fair value of available-for-sale investments	–	5,919	–	–	–	–	–	–	–	5,919	13,455	19,374
Appreciation of investment properties upon valuation	–	932,670	–	–	–	–	–	–	–	932,670	–	932,670
Total comprehensive income for the period	–	938,589	(9,344)	–	–	–	(219,267)	244,875	–	954,853	161,754	1,116,607
Issue of shares	–	–	–	–	–	–	–	–	–	–	–	–
Disposal of subsidiaries	–	–	–	–	–	(461)	–	–	–	(461)	–	(461)
Effect of changes of other equity holders' interests in associates by the equity method	–	–	–	–	–	–	–	–	–	–	–	–
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	–	–	1,392	1,392
Dividends declared to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	(37,792)	(37,792)
Capital contributions by non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	–
Final 2011 dividend declared	–	–	–	–	–	–	–	–	(686,190)	(686,190)	–	(686,190)
Share incentive scheme												
– Equity-settled share expenses	–	–	–	3,666	–	–	–	–	–	3,666	–	3,666
– Unlocking the lock-up shares	–	–	–	–	–	–	–	–	–	–	–	–
Proposed final 2011 dividend	–	–	–	–	–	–	–	–	–	–	–	–
Transfer from capital reserve	–	–	–	–	–	–	–	–	–	–	–	–
At 30 June 2012	3,440,078	9,470,014	(13,464)	16,168	(40,537)	1,587,430	(746,963)	10,790,859	–	24,503,585	2,182,412	26,685,997

# Consolidated Statement of Changes in Equity (continued)

(Prepared under HKFRSs)  
Six months ended 30 June 2012

	Attributable to owners of the parent											
	Issued capital (unaudited) RMB'000	Capital reserve (unaudited) RMB'000	Hedging reserve (unaudited) RMB'000	Share Incentive Scheme reserve (unaudited) RMB'000	Shares subject to lock-up under Share incentive scheme (unaudited) RMB'000	Statutory reserves (unaudited) RMB'000	Exchange fluctuation reserve (unaudited) RMB'000	Retained profits (unaudited) RMB'000	Proposed final dividends (unaudited) RMB'000	Total (unaudited) RMB'000	Non-controlling interests (unaudited) RMB'000	Total Equity (unaudited) RMB'000
At 1 January 2011	2,866,732	8,608,755	—	462,220	(276,266)	1,537,512	(168,765)	9,222,387	841,297	23,093,872	1,868,126	24,961,998
Total comprehensive income for the period	—	—	—	—	—	—	(4,664)	769,271	—	764,607	69,420	834,027
Capital contributed by owners of the parent	—	—	—	—	—	—	—	—	—	—	—	—
Effect of changes of other equity holders' interests in associates by the equity method	—	—	—	—	—	—	—	—	—	—	—	—
Acquisition of non-controlling interests	—	—	—	—	—	—	—	—	—	—	316	316
Dividends declared to non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	(218,677)	(218,677)
Capital contributions by non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	6,696	6,696
Final 2010 dividend declared	—	—	—	—	—	—	—	—	(841,297)	(841,297)	—	(841,297)
Disposal of subsidiary	—	—	—	—	—	—	—	—	—	—	—	—
Share incentive scheme												
— Equity settled share expense	—	—	—	34,670	—	—	—	—	—	34,670	—	34,670
— Unlocking the lock-up shares	—	—	—	—	—	—	—	—	—	—	—	—
Proposed 2010 dividend	—	—	—	—	—	—	—	—	—	—	—	—
Transfer from capital reserve	—	—	—	—	—	—	—	—	—	—	—	—
Transfer from retained profits	—	—	—	—	—	—	—	—	—	—	—	—
At 30 June 2011	2,866,732	8,608,755	—	496,890	(276,266)	1,537,512	(173,429)	9,991,658	—	23,051,852	1,725,881	24,777,733

# Consolidated Cash Flow Statement

(Prepared under HKFRSs)  
Six months ended  
30 June 2012

Items	Six months ended 30 June 2012 (unaudited) RMB'000	Six months ended 30 June 2011 (unaudited) RMB'000
Net cash outflow from operating activities	(3,781,082)	(6,220,529)
Net cash outflow from investing activities	(1,682,810)	(2,183,152)
Net cash inflow from financing activities	5,408,579	8,434,376
Net increase in cash and cash equivalents	(55,313)	30,695
Cash and cash equivalents at beginning of year	20,662,089	14,905,099
Effect of exchange rate changes, net	(63,316)	(68,264)
Cash and cash equivalents at end of period	20,543,460	14,867,530
Analysis of balance of cash and cash equivalents		
Unrestricted bank balances and cash	20,490,281	14,431,328
Time deposits with original maturity of less than three months	53,179	436,202
	20,543,460	14,867,530



# Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)  
30 June 2012

## 1. CORPORATE INFORMATION

ZTE Corporation (the “Company”) is a limited liability company established 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 (collectively referred to as the “Group”) were principally involved in the design, development, manufacture and sale of telecommunications system equipment, mobile end products and solutions.

In the opinion of the directors, in accordance with the Chapter 8 Qualifications for Listing of Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the controlling shareholder of the Group is Shenzhen Zhongxingxin Telecommunications Equipment Company Limited (“Zhongxingxin”), a limited liability company registered in the PRC.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investments and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Impact of new and revised HKFRSs and HKASs

HKAS 12 Amendments      Amendments to HKAS 12 Income Taxes — Deferred Tax: Recovery of Underlying Assets

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 Income Taxes — Recovery of Revalued Non-Depreciable Assets that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group adopted HKAS 12 Amendments from 1 January 2012. The adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

# Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)  
30 June 2012

## 3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- (a) The networks (communication system) segment includes wireless communications, wireline switch and access and optical and data communications.
- (b) The terminals segment engages in the manufacture and sale of mobile phone handsets and data card products.
- (c) The telecommunications software systems, services and other products segment represent the provision of telecommunications software systems such as operation support systems and the provision of fee-based services.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, research and development costs, impairment losses, dividend income, share of profits and losses of associates, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, pledged deposits, cash and cash equivalents, investments in a jointly-controlled entity and associates, other receivables, other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, interest-bearing bank borrowings, other payables, bonds payable, tax payable, deferred tax liabilities, provision for retirement benefits and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

# Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)  
30 June 2012

## 3. OPERATING SEGMENT INFORMATION (CONTINUED)

An analysis of the Group's revenue and profit by operating segment is set out in the following table:

	Telecommunications software systems, services and other			Total RMB'000
	Networks RMB'000	Terminals RMB'000	products RMB'000	
Six months ended 30 June 2012				
<b>Segment revenue:</b>				
Contract revenue from external customers	21,279,581	—	6,814,830	28,094,411
Sale of goods and services	—	14,248,064	299,423	14,547,487
<b>Total</b>	<b>21,279,581</b>	<b>14,248,064</b>	<b>7,114,253</b>	<b>42,641,898</b>
<b>Segment results</b>	<b>3,897,951</b>	<b>383,284</b>	<b>1,150,991</b>	<b>5,432,226</b>
Bank and other interest income				67,994
Dividend income and unallocated gains				1,645,518
Unallocated expenses				(5,920,664)
Finance costs				(561,520)
Share of profits and losses of: Jointly-controlled entity				(893)
Associates				(7,029)
<b>Profit before tax</b>				<b>655,632</b>
30 June 2012				
<b>Segment assets</b>	<b>38,641,891</b>	<b>13,647,341</b>	<b>12,918,871</b>	<b>65,208,103</b>
Investment in jointly-controlled entities				45,302
Investment in associates				527,594
Unallocated assets				43,068,004
<b>Total assets</b>				<b>108,849,003</b>
<b>Segment liabilities</b>	<b>8,475,865</b>	<b>899,195</b>	<b>2,833,676</b>	<b>12,208,736</b>
Unallocated liabilities				69,954,270
<b>Total liabilities</b>				<b>82,163,006</b>
Six months ended 30 June 2012				
<b>Other segment information:</b>				
Provision for asset impairment	229,798	153,865	76,827	460,490
Depreciation and amortisation	362,641	242,812	121,239	726,692
Capital expenditure	673,033	450,640	225,010	1,348,683

# Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)  
30 June 2012

## 3. OPERATING SEGMENT INFORMATION (CONTINUED)

	Networks RMB'000	Terminals RMB'000	Telecommunications software systems, services and other products RMB'000	Total RMB'000
Six months ended 30 June 2011 (Restated)				
<b>Segment revenue:</b>				
Contract revenue from external customers	20,482,092	—	3,737,548	24,219,640
Sale of goods and services	—	11,214,730	1,578,741	12,793,471
<b>Total</b>	<b>20,482,092</b>	<b>11,214,730</b>	<b>5,316,289</b>	<b>37,013,111</b>
<b>Segment results</b>	<b>3,871,167</b>	<b>456,438</b>	<b>955,462</b>	<b>5,283,067</b>
Bank and other interest income				51,913
Dividend income and unallocated gains				2,064,643
Unallocated expenses				(5,626,611)
Finance costs				(509,670)
Share of losses of associates				9,407
<b>Profit before tax</b>				<b>1,272,749</b>
31 December 2011				
<b>Segment assets</b>	<b>40,918,534</b>	<b>13,141,415</b>	<b>11,257,292</b>	<b>65,317,241</b>
Investment in jointly-controlled entities				46,195
Investment in associates				467,896
Unallocated assets				41,952,722
<b>Total assets</b>				<b>107,784,054</b>
<b>Segment liabilities</b>	<b>9,964,112</b>	<b>767,660</b>	<b>2,741,274</b>	<b>13,473,046</b>
Unallocated liabilities				68,022,233
<b>Total liabilities</b>				<b>81,495,279</b>
Six months ended 30 June 2011				
<b>Other segment information:</b>				
Provision for asset impairment	157,601	86,121	42,995	286,717
Depreciation and amortisation	355,586	194,309	97,009	646,904
Capital expenditure	1,033,105	564,538	281,844	1,879,487

# Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)  
30 June 2012

## 3. OPERATING SEGMENT INFORMATION (CONTINUED)

### Geographical analysis

The three operating segments of the Group are mainly operated in the PRC, other Asian regions and Africa. An analysis of the Group's revenue and profit by geographical segments for the six months ended 30 June 2012 and 2011 is set out in the following table:

	Six months ended 30 June 2012 RMB'000	Six months ended 30 June 2011 RMB'000 (restated)
The PRC	20,884,864	16,526,771
Asia (excluding the PRC)	8,009,957	6,807,562
Africa	3,923,335	5,011,605
Europe, Americas and Oceania	9,823,742	8,667,173
<b>Total</b>	<b>42,641,898</b>	<b>37,013,111</b>

## 4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts and the value of services rendered during the year. All significant intra-group transactions have been eliminated on consolidation.

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June 2012 RMB'000	Six months ended 30 June 2011 RMB'000 (restated)
<b>Turnover</b>		
Telecommunications system contracts	28,094,411	24,219,640
Sale of goods and services	14,547,487	12,793,471
	<b>42,641,898</b>	<b>37,013,111</b>

# Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)  
30 June 2012

## 4. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

	Jan-Jun 2012 RMB'000	Jan-Jun 2011 RMB'000
<b>Other income</b>		
VAT refunds for software products <sup>#</sup>	1,152,837	363,034
Bank and other interest income	67,994	51,913
Others <sup>##</sup>	393,881	266,085
	<b>1,614,712</b>	<b>681,032</b>
<b>Gains</b>		
Gains from derivative financial instruments	32,240	66,529
Exchange gains	—	279,642
Gains from equity investment <sup>###</sup>	64,453	1,088,293
Dividends received	2,107	1,060
	<b>98,800</b>	<b>1,435,524</b>
	<b>1,713,512</b>	<b>2,116,556</b>

<sup>#</sup> VAT refund for software products represents tax payments by subsidiaries of the Company on any effective VAT rate in excess of 3% in respect of software product sales which are immediately refundable upon payment pursuant to the principles of the State Council document entitled "Certain Policies to Further Encourage the Development of Software Enterprise and the IC Industry" and the approval reply of the state taxation authorities.

<sup>##</sup> Others mainly represent government subsidies, gains from contract penalties and other gains.

<sup>###</sup> As was listed Jufei on Growth Enterprise Markets of the Shenzhen Stock Exchange on 19 March 2012, the Company's shareholding percentage was changed to 16.09% from 21.62%. The Company has retained significant influence over Jufei, which remains an associate of the Company. The ownership dilution is a deemed disposal, in respect of which the Company recognised a gain on the deemed disposal of RMB61,189,000 in its profit or loss for the year. The gain on such deemed disposal is computed by comparing the Company's proportionate share of net assets of Jufei before and after the listing.

# Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)  
30 June 2012

## 5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June 2012 RMB'000	Six months ended 30 June 2011 RMB'000
Cost of goods and services	28,861,862	22,937,870
Depreciation	504,555	501,520
Amortisation of intangible assets	67,130	25,370
Amortisation of development expenses	155,007	120,014
Provision for bad and doubtful debts*	208,147	270,740
Provision for warranties**	241,360	126,966
Write-down of inventories to net realisable value**	252,343	15,977
Exchange difference, net	141,321	—
Loss on disposal of fixed assets *	12,068	5,087
Equity-settled share expense	3,666	34,670

\* Provision for bad and doubtful debts, loss on disposal of fixed assets are included in "Other expenses" on the face of the consolidated income statement.

\*\* Provision for warranties and Write-down of inventories to net realisable value are included in "Cost of sales" on the face of the consolidated statement of comprehensive income.

## 6. FINANCE COSTS

	Six months ended 30 June 2012 RMB'000	Six months ended 30 June 2011 RMB'000
Interest on bank loans wholly repayable within five years	225,509	195,041
Interest on bonds payable	93,720	79,982
Total interest expense on financial liabilities not at fair value through profit or loss	319,229	275,023
Other finance costs:		
Finance costs on trade receivables factored and bills discounted	242,291	234,647
	561,520	509,670

# Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)  
30 June 2012

## 7. TAXATION

	Six months ended 30 June 2012 RMB'000	Six months ended 30 June 2011 RMB'000
Group:		
Current — Mainland China	223,880	399,629
Current — Overseas	77,613	65,879
Deferred	(37,869)	(29,089)
Total tax charge for the period	<b>263,624</b>	436,419

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

The Company was subject to an enterprise income tax rate of 15% for the years from 2011 to 2013 as a national-grade hi-tech enterprise incorporated in Shenzhen.

Major subsidiaries operating in Mainland China that enjoyed preferential tax rates are as follows:

Xi'an Zhongxingxin Software Company Limited is a software enterprise established in December 2009, was entitled to enterprise income tax exemption in the first and second profitable years and was entitled to a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Document Cai Shui (2008) No. 1. It is subject to a 50% reduction in the enterprise income tax rate of 25% applicable as the current year is its fourth profitable year.

Nanjing Zhongxing New Software Company Limited is a software enterprise established in December 2009, was entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Document Cai Shui (2008) No. 1. It is subject to a 50% reduction in the enterprise income tax rate of 25% applicable as the current year is its third profitable year.

Shenzhen Zhongxing ICT Company Limited is a software enterprise established in September 2009. It was entitled to enterprise income tax exemption in the first and second profitable years and was entitled to a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Document Shen Guo Shui Jian Mian Bei An (2009) No. 383. It was subject to a 50% reduction in the enterprise income tax rate of 25% applicable as the current year is its fourth profitable year.

Shenzhen Zhongxing Software Company Limited is a national-grade hi-tech enterprise and an Important Software Enterprise under the National Planning Layout for the years from 2009 to 2010. It is in the process of application for the status of an Important Software Enterprise under the National Planning Layout for the years from 2011 to 2012. The enterprise income tax rate applicable to the period was 10%.

Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited was subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise.



# Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)  
30 June 2012

## 7. TAXATION (CONTINUED)

Shenzhen Zhongxing Mobile Technology Company Limited was subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise registered in Shenzhen Nanshan Hi-tech Industrial Park.

ZTE Microelectronics Technology Company Limited was subject to an enterprise income tax rate of 15% for the years from 2011 to 2013 as a national-grade hi-tech enterprise.

Shenzhen Lead Communication Equipment Company Limited was subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise.

Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited was subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise in Shanghai Pudong New Area.

Shanghai Zhongxing Software Company Limited was subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise.

Nanjing Zhongxing Software Company Limited was subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise.

Nanjing ZTEsoft Technology Company Limited was a national-grade hi-tech enterprise and an Important Software Enterprise under the National Planning Layout for the years from 2009 to 2010. It is in the process of applying for the status of an Important Software Enterprise under the National Planning Layout for the year 2011 to 2012. The enterprise income tax rate applicable for the period was 10%.

Xi'an Zhongxing Software Company Limited was subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise.

Xi'an Zhongxing Jing Cheng Communication Company Limited was subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise.

Wuxi Zhongxing Optoelectronics Technologies Company Limited was registered at Wuxi State's High-tech Industrial Development Zone. It was subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise.

Nanjing Zhongxingxin Software Company Limited is a software enterprise established in December 2009. It is entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Document Cai Shui (2008) No. 1. The current year is its third profitable year.

## 8. DIVIDEND

The Directors do not recommend any payment of interim dividend for the six months ended 30 June 2012 (Same period in 2011: nil).

# Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)  
30 June 2012

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

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

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

Calculations of basic and diluted earnings per shares were as follows:

	Six months ended 30 June 2012 RMB'000	Six months ended 30 June 2011 RMB'000
Earnings		
Net profit attributable to ordinary equity holders of the parent company for the period	244,875	769,271
	Six months ended 30 June 2012 Shares '000	Six months ended 30 June 2011 Shares '000 (Restated)
Shares		
Weighted average number of ordinary shares of the Company in issue (Note 1)	3,430,952	3,365,190
Diluting effect – weighted average number of ordinary shares (Note 2)		
Restricted Shares under share incentive scheme	6,874	74,237
Adjusted weighted average number of ordinary shares in issue	3,437,826	3,439,427

Note 1: In July 2011, the Company enlarged its share capital by 573,346,336 shares by way of capitalisation of capital reserves. After the capitalisation, the total number of ordinary shares in issue was 3,440,078,020 shares. The amounts of earnings per share for the reported periods were computed on the basis of the adjusted number of shares.

During the reporting period, 9,125,893 restricted shares subject to lock-up under the Phase I Share Incentive Scheme of the Company were not included accounted for as outstanding ordinary shares in issue.

Note 2: During the reporting period, 6,874,194 restricted shares (less 2,251,699 shares which were to lapse) subject to lock-up under the Phase I Share Incentive Scheme of the Company gave rise to potentially dilutive ordinary shares.

# Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)  
30 June 2012

## 10. TELECOMMUNICATIONS SYSTEM CONTRACTS

	30 June 2012 RMB'000	31 December 2011 RMB'000
Amount due from customers for contract works	16,635,456	14,588,455
Amount due to customers for contract works	(3,003,622)	(3,068,804)
	<b>13,631,834</b>	11,519,651
Contract costs incurred plus recognized profits/(loss) to date	43,621,552	42,480,623
Less: Estimated loss	182,607	160,242
Progress billings	29,807,111	30,800,730
	<b>13,631,834</b>	11,519,651

## 11. TRADE AND BILLS RECEIVABLES

Progress payment for telecommunications system contracts is normally made in accordance with the agreed payment schedule. The Group's trading terms with its major customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit terms are normally 90 days, and can be extended to at most 1 year depending on the customers' credit rating. 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 2012 RMB'000	31 December 2011 RMB'000
Within 6 months	24,425,599	24,390,814
7 to 12 months	3,173,580	2,296,520
1 to 2 years	1,316,733	1,174,085
2 to 3 years	87,291	99,809
Over 3 years	—	—
	<b>29,003,203</b>	27,961,228
Current portion of trade and bills receivables	(27,788,583)	(27,096,954)
Long-term portion	1,214,620	864,274

# Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)  
30 June 2012

## 11. TRADE AND BILLS RECEIVABLES (CONTINUED)

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

	30 June 2012 RMB'000	31 December 2011 RMB'000
The controlling shareholder	115	77
Jointly-controlled entities	56,870	88,966
Associates	882	1,652
Related companies	42,265	25,957
	<b>100,132</b>	<b>116,652</b>

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

## 12. TRADE AND BILLS PAYABLES

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

	30 June 2012 RMB'000	31 December 2011 RMB'000
Within 6 months	26,869,727	32,263,588
7 to 12 months	173,329	299,452
1 to 2 years	257,153	87,206
2 to 3 years	17,941	13,278
Over 3 years	39,258	28,728
Total	<b>27,357,408</b>	<b>32,692,252</b>

The balances due to the controlling shareholder, related companies and associates included in the above are as follow:

	30 June 2012 RMB'000	31 December 2011 RMB'000
The controlling shareholder	41,918	70,404
Associates	62,385	154,025
Other related companies	84,407	88,159
Total	<b>188,710</b>	<b>312,588</b>

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

Trade payables are non-interest-bearing and are normally settled on 180-day terms.

# Notes to Condensed Consolidated Interim Financial Statements

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## 13. CONTINGENT LIABILITIES

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

	30 June 2012 RMB'000	31 December 2011 RMB'000
Guarantees given to banks in connection with borrowing to customers	65,286	65,213
Guarantees given to banks in respect of performance bonds	9,754,084	9,752,558
	<b>9,819,370</b>	<b>9,817,771</b>

- (b) In August 2006, a customer instituted arbitration against the Company to demand indemnity from the Company in the amount of PKR762,984,000 (approximately RMB51,175,000). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract to demand for damages. In February 2008, the arbitration authority issued its award ruling that an indemnity of PKR328,040,000 (approximately RMB22,002,000) is to be paid by the Company. The Company has set aside a provision for such amount at the end of the reporting period. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a counter-claim against the customer's breach of contract. Based on the legal opinion furnished by lawyers engaged by the Company, the case will likely stand a prolonged period of litigation. As at the date of approval of the financial statements, the Group had not made any payments of compensation pursuant to the aforesaid judgement. Based on the legal opinion furnished by lawyers engaged by the Company and the current progress of the case, the directors of the Company are of the opinion that the aforesaid arbitration will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.
- (c) In April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth"), an engineering contractor of the Company, demanded the Company to increase the contract amount on the grounds that raw material prices had increased in connection with first a slowdown in work, followed later by total suspension. In September 2008, the Company initiated litigation with the Nanshan District People's Court, pleading for the revocation of the contract and court order of the evacuation of the work sites by the defendant, as well as a penalty payment for work delay in the amount of RMB24,912,000 and damages of RMB11,319,000 payable to the Company. The Nanshan District People's Court handed the first trial judgement in July 2009, ruling that the contract between the Company and China Construction Fifth be revoked and a penalty payment for work delay in the amount of RMB12,817,000 be payable by China Construction Fifth. China Construction Fifth had appealed against the said judgement with the Nanshan District People's Court. As of now, court hearing for the second trial has been completed and the court has ordered trial of the case to be suspended pending final judgement of the case of China Construction Fifth Division at the Intermediate Court.

In July 2009, China Construction Fifth initiated another litigation with the Shenzhen Intermediate People's Court, demanding the Company to make a payment of RMB75,563,000 for raw materials and staff deployment. The said cases are currently in trial.

In October and November 2009, the Group further instituted two complaints with the Nanshan District People's Court, demanding China Construction Fifth to undertake a penalty payment for work delay in the amount of RMB30,615,000 and the payment of RMB39,537,000, representing the amount of work payments in excess of the total contract amount. Both trials are suspended.

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## 13. CONTINGENT LIABILITIES (CONTINUED)

(c) (continued)

Based on the legal opinion furnished by lawyers engaged by the Company and the current progress of the case, the directors of the Company are of the opinion that the aforesaid arbitration will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

- (d) A lawsuit on breach of agreement and infringement of rights was instituted against the Company and its subsidiary ZTE (USA), Inc. ("ZTE (USA)") by Universal Telephone Exchange, Inc. (UTE) at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE (USA) had violated a confidential agreement between UTE and ZTE (USA), for which UTE was seeking a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract as a result of inappropriate actions of the Company and ZTE (USA), for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, the Company has appointed an attorney to defend its case.

On 23 February 2012, the Company and ZTE USA applied to the court for the rejection of UTE's suit on the grounds that there was an arbitration clause under the confidential agreement. On 1 March 2012, the attorney representing UTE concurred with the Company's application to subject the case to the arbitration clause and executed an agreement with the Company. The agreement has been submitted to the court. On 1 May 2012, UTE filed an application for arbitration to the American Arbitration Association in respect of the case. The Company has submitted its defense in response thereto.

Based on the legal opinion furnished by lawyers engaged by the Company and the current progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

- (e) On 5 April 2011, a certain carrier of Ecuador filed an application for arbitration with the Business Arbitration Tribunal of Guayaquil, Ecuador, claiming quality problems in the construction work undertaken by the Company and demanding from the Company damages of USD23.35 million in aggregate, comprising USD22.25 million for network reconstruction and USD1.10 million for construction quality supervision and management in relation to the entire network. The attorney engaged by the Company has submitted a defense in a timely manner to deny all allegations of the carrier. Based on the legal opinion furnished by lawyers engaged by the Company and the current progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.
- (f) On 9 December 2011, the Company and ZTE USA, Inc. ("ZTE USA"), its wholly-owned subsidiary, received a petition for arbitration filed by four USA companies and a natural person (together "CLEARTALK") with the International Center for Dispute Resolution under the American Arbitration Association ("ICDR"), whereby CLEARTALK alleged that Company and ZTE USA had committed acts of breach of contract and fraud and demanded contract cancellation of contract and refund of payments and compensation with an aggregate amount of over USD10 million. On 28 December 2011, the Company and ZTE USA received a revised petition for arbitration filed by CLEARTALK with ICDR, whereby CLEARTALK demanded, in respect of the same case, a USD300 million compensation together with the reimbursement of legal fees, litigation costs and other compensation deemed appropriate by the arbitration court.

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## 13. CONTINGENT LIABILITIES (CONTINUED)

Currently the Company and ZTE USA are actively preparing for defense in the lawsuit. Arbitration of the case has been scheduled for 8 October 2012 at Jacksonville, Florida. As the arbitration procedures of the United States do not provide for any limit on the amount compensation demanded by an applicant, the final amount of compensation demanded in this case will not be confirmed until the arbitration tribunal opens.

Based on the legal opinion furnished by lawyers engaged by the Company and the current progress of the above case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

- (g) On 3 January 2012, ZTE DO BRAZIL LTDA (“ZTE Brazil”), a wholly-owned subsidiary of the Company, received a notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil. It was alleged in the notice that ZTE Brazil had not paid the ICMS tax (a tax payable in respect of the transit of goods and related services between different states) to the tax bureau of Sao Paulo State in respect of goods imported at Espirito Santo State and transported to Sao Paulo State during the period from October 2006 to December 2008. The tax amount outstanding was approximately BRL74.70 million (approximately RMB234 million).

On 20 January 2012, ZTE Brazil submitted an administrative defense to the primary administrative court of the tax bureau of Sao Paulo State, stating that ZTE Brazil had paid the ICMS tax at Espirito Santo State. Pursuant to an agreement between Sao Paulo State and Espirito Santo State in June 2009 and Order No. 56045/2010 of Sao Paulo State, which provides that the agreement shall apply to ICMS tax incurred prior to May 2009, ZTE Brazil is not required to pay ICMS to the tax bureau of Sao Paulo State. On 13 April 2012, ZTE Brazil received the judgment of the primary trial of the primary administrative court of the tax bureau of Sao Paulo State, which endorsed the administrative penalty imposed by the tax bureau of Sao Paulo State. On 11 June 2012, ZTE Brazil filed an appeal with the secondary administrative court of the tax bureau of Sao Paulo State.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

Save as disclosed above, the Company and the Group had no other significant Contingent liabilities as at 30 June 2012.

## 14. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its offices under operating lease arrangements, with leases negotiated for terms ranging from 1 to 50 years.

At 30 June 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2012 RMB'000	31 December 2011 RMB'000
Within one year	335,296	359,270
In the second to fifth years, inclusive	1,030,076	1,163,828
After five years	180,122	298,500
	<b>1,545,494</b>	<b>1,821,598</b>

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## 15. COMMITMENTS

### Capital commitment

	30 June 2012 RMB'000	31 December 2011 RMB'000
Contracted, but not provided for:		
Land and buildings	499,331	836,989
Investments in associates	5,425	945
	<b>504,756</b>	<b>837,934</b>
Authorised, but not contracted for:		
Land and buildings	21,650,226	21,752,024

## 16. 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:

	Notes	Six months ended 30 June 2012 RMB'000	Six months ended 30 June 2011 RMB'000
<b>The controlling shareholder:</b>			
Purchase of raw materials	(a)	100,634	175,654
Sales of finished goods	(b)	943	1,498
Rental expense	(c)	4,414	4,414
<b>Associates:</b>			
Purchase of raw materials	(a)	122,419	129,865
Sales of finished goods	(b)	6,137	789
<b>Jointly-controlled entities:</b>			
Sales of finished goods	(b)	43,894	316,956
<b>Entities controlled by key management personnel of the Group:</b>			
Purchase of raw materials	(a)	109,280	131,941
Sales of finished goods	(b)	18,316	1,494
Rental expense	(d)	25,655	23,163
Rental income	(e)	848	848
Sale of a subsidiary	(f)	25,174	—
<b>Entities controlled by the controlling shareholder:</b>			
Purchase of raw materials	(a)	144,093	78,583
Sales of finished goods	(b)	358	150



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## 16. RELATED PARTY TRANSACTIONS (CONTINUED)

### (I) Transactions with related parties (continued)

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 suppliers to their major customers.
- (b) The sales of finished goods were made in accordance with published prices and conditions offered to major customers of the Group.
- (c) The rental expense was charged for RMB40 per square metre.
- (d) The rental expense was charged at a rate ranging from RMB13.1 to RMB115 per square metre.
- (e) The rental income was earned from RMB20.6 to RMB102 per square metre.
- (f) Zhongxing Development acquired equity interests in Zhongxing Hetai for a consideration of RMB25,174,000. The pricing of the equity transfer was determined by reference to the audited net assets of Zhongxing Hetai as at 30 April 2012.

### (II) Compensation of key management personnel of the Group

	Six months ended 30 June 2012 RMB'000	Six months ended 30 June 2011 RMB'000
Short-term employee benefits	5,556	3,899

## 17. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 August 2012.

## Documents Available for Inspection

1. Text of the 2012 interim report signed by the Chairman of the Board of Directors;
2. Original copies of the Group's unaudited financial reports and consolidated financial statements for the six months ended 30 June 2012 prepared under the PRC ASBES and HKFRSs, respectively, and duly signed by the Company's legal representative, Chief Financial Officer and Head of Finance Division;
3. Original copies of all documents and announcements of the Company published in China Securities Journal, Securities Times, Shanghai Securities News and <http://www.cninfo.com.cn>;
4. Articles of Association.

By order of the Board  
**Hou Weigui**  
*Chairman*

22 August 2012



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