ZTE中兴

ZTE CORPORATION

中興通訊股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 763)

2006 INTERIM REPORT SUMMARY AND RESULTS ANNOUNCEMENT

§1. IMPORTANT

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

The information in this interim report summary and results announcement is extracted from the full text of the 2006 interim report, which has been posted on the website of Shenzhen Stock Exchange (http://www.szse.com.cn), the CSRC designated information disclosure website (http://www.cninfo.com.cn) and the website of ZTE (http://www.zte.com.cn). Investors who wish to understand the details of the contents should read the full text of the 2006 Interim Report.

1.2 The 2006 interim report has been considered and approved at the eighteenth meeting of the third session of the Board of Directors of the Company. Mr. Wang Zongyin, Vice Chairman of the Board of Directors, was unable to attend the meeting due to work reasons, and has authorised in writing Mr. Li Juping, Director, to vote on his behalf. Mr. Xie Weiliang, Vice Chairman of the Board of Directors, was unable to attend the meeting due to work reasons, and has authorised in writing Mr. Dong Lianbo, Director, to vote on his behalf. Mr. Zhang Junchao, Director, was unable to attend the meeting due to work reasons, and has authorised in writing Mr. Yin Yimin, Director, to vote on his behalf. Mr. Qiao Wenjun, Independent Director, was unable to attend the meeting due to work reasons, and has authorised in writing Mr. Mi Zhengkun, Independent Director, to vote on his behalf. Mr. Zhu Wuxiang, Independent Director, was unable to attend the meeting due to work reasons, and has authorised in writing Mr. Chen Shaohua, Independent Director, to vote on his behalf.

1.3 The interim financial statements of ZTE and its subsidiaries (the "Group") for the six months ended 30 June 2006 prepared in accordance with generally accepted accounting principles ("PRC GAAP") in the PRC and with Hong Kong Accounting Standards respectively, were unaudited.

1.4 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 the 2006 interim report.

§2. CORPORATE INFORMATION

2.1 Basic Information

Stock name	G Zhongxing (A shares)	ZTE (H shares)
Stock code	000063 (A shares)	763 (H shares)
Stock exchange	Shenzhen Stock Exchange	The Stock Exchange of Hong Kong Limited
Registered office and business address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China	
Principal place of business in Hong Kong	8/F Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong	
Postal Code	518057	
Website	http://www.zte.com.cn	
E-mail	fengjianxiong@zte.com.cn	

	Authorized representatives of the Company	Secretary to the Board of Directors	Joint Company Secretaries	Securities Affairs Representative
Name	Yin Yimin Feng Jianxiong	Feng Jianxiong	Feng Jianxiong, Suen Pui Yee, Samantha	Li Liuhong
Correspondence address	6/F, Block A, ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China			
Telephone	+86 755 26770282			
Facsimile	+86 755 26770286			
E-mail	fengjianxiong@zte.com.cn			

2.2 Major Financial Data and Indicators

2.2.1. *Major financial data and indicators prepared in accordance with PRC GAAP*

Item	As at 30 June 2006	As at 31 December 2005	Increase/ decrease as at end of reporting period compared with end of last year
Current assets (RMB in thousands)	**17,889,629**	17,936,176	-0.26%
Current liabilities (RMB in thousands)	**9,179,636**	10,010,031	-8.30%
Total assets (RMB in thousands)	**21,771,318**	21,779,131	-0.04%
Shareholders' equity (excluding minority interests) (RMB in thousands)	**10,251,664**	10,125,095	1.25%
Net assets per share (excluding minority interests) (RMB)	**10.68**	10.55	1.23%
Adjusted net assets per share (RMB)	**10.67**	10.55	1.14%

Item	For the six months ended 30 June 2006	For the six months ended 30 June 2005	Increase/ decrease for the reporting period compared with the same period last year
Net profit (RMB in thousands)	**373,468**	687,663	-45.69%
Net profit after extraordinary gains or losses (RMB in thousands)	**350,592**	675,321	-48.09%
Earnings per share (RMB)	**0.39**	0.72	-45.83%
Return on net assets (excluding minority interests)	**3.64%**	7.15%	Decrease by 3.51 percentage points
Net cashflow from operating activities (RMB in thousands)	**(2,834,793)**	(2,587,873)	-9.54%

2.2.2 *Extraordinary gain or loss items*

√ Applicable □ Not applicable

Extraordinary gain or loss items

Item	Amount *(RMB in thousands)*
Subsidy income	29,670
Non-operating income	3,777
Less: Non-operating expenses	6,534
Less: Effect of income tax	4,037
Total	22,876

2.2.3 *Major financial data prepared in accordance with Hong Kong Accounting Standards*

Item	For the six months ended 30 June 2006	For the six months ended 30 June 2005
Basic earnings per share (excluding minority interests) (RMB)	**0.36**	0.69
Return on net assets (excluding minority interests)	**3.35%**	6.86%

Item	As at 30 June 2006	As at 31 December 2005
Net assets per share (excluding minority interests) (RMB)	**10.79**	10.68

2.2.4 *Differences in net profits and shareholders' equity under PRC GAAP and Hong Kong Accounting Standards*

√ Applicable □ Not applicable

Unit: RMB in thousands

	PRC GAAP	Hong Kong Accounting Standards
Net profit for the six months ended 30 June 2006	373,468	347,058
Shareholders' equity as at 30 June 2006 (excluding minority interests)	10,251,664	10,350,671
Explanation of the differences	Please refer to Section 7.2.3 for details.	

§3. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

3.1 Changes in share capital

□ Applicable √ Not applicable

3.2 Shareholdings of Substantial Shareholders as at End of Reporting Period

3.2.1 *Shareholdings of top ten shareholders and top ten holders of shares not subject to lock-up*

Total number of shareholders: 34,859 shareholders (of which: 34,387 were holders of A shares and 472 were holders of H shares)

Top ten shareholders

	Name of shareholder	Nature of shareholder	Percentage shareholding (%)	Total no. of shares held (shares)	Number of shares held that are subject to lock-up (shares)	Number of shares pledged or locked up (shares)
1.	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited ("Zhongxingxin")	State-owned shareholder	37.41	358,958,824	358,958,824	None
2.	HKSCC Nominees Limited	Foreign shareholder	16.63	159,574,239	0	Unknown
3.	Deutsche Bank Aktiengesellschaft	Foreign shareholder	2.08	19,941,363	0	Unknown
4.	Jade Dragon (Mauritius) Limited	Foreign shareholder	1.91	18,290,896	18,290,896	None
5.	China Life Insurance Company Limited — Dividends — Individual Dividends — 005L-FH002 Shen	Other	1.36	13,022,941	0	Unknown
6.	Hunan Nantian (Group) Co., Ltd	Other	1.19	11,431,810	11,431,810	None
7.	China Life Insurance Group Company — Traditional — General Insurance Products	Other	0.97	9,352,456	0	Unknown
8.	E FUND Selected Value Stocks Equity Fund	Other	0.90	8,651,082	0	Unknown
9.	China International Fund Balance in Dual Interests Mixed Equity Fund	Other	0.81	7,795,621	0	Unknown
10.	Lishan Microelectronics Corporation	State-owned shareholder	0.58	5,520,180	5,520,180	None
10.	CASIC Shenzhen (Group) Company, Limited	State-owned shareholder	0.58	5,520,180	5,520,180	None
10.	Shaanxi Telecommunications Industrial Company	State-owned shareholder	0.58	5,520,180	5,520,180	None
10.	China Mobile Telecommunications No. 7 Research Institute	State-owned shareholder	0.58	5,520,180	5,520,180	None
10.	Jilin Posts and Telecommunications Equipment Company	State-owned shareholder	0.58	5,520,180	5,520,180	None
10.	Hebei Telecommunications Equipment Company, Limited	State-owned shareholder	0.58	5,520,180	5,520,180	None

Top ten holders of shares not subject to lock-up

	Name of shareholder	Number of shares held that are not subject to lock-up (shares)	Class of shares
1.	HKSCC Nominees Limited	159,574,239	Overseas-listed foreign shares
2.	Deutsche Bank Aktiengesellschaft	19,941,363	RMB-denominated ordinary shares
3.	China Life Insurance Company Limited — Dividends — Individual Dividends — 005L-FH002 Shen	13,022,941	RMB-denominated ordinary shares
4.	China Life Insurance Group Company — Traditional — General Insurance Products	9,352,456	RMB-denominated ordinary shares
5.	E FUND Selected Value Stocks Equity Fund	8,651,082	RMB-denominated ordinary shares
6.	China International Fund Balance in Dual Interests Mixed Equity Fund	7,795,621	RMB-denominated ordinary shares
7.	ICBC Credit Suisse Core Value Stocks Equity Fund	5,069,791	RMB-denominated ordinary shares
8.	Pufeng Equity Fund	4,896,492	RMB-denominated ordinary shares
9.	BOC Sustainable Growth Equity Fund	4,655,000	RMB-denominated ordinary shares
10.	Fund Fenghe	4,494,213	RMB-denominated ordinary shares

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

1. Among the Company's top ten holders of shares not subject to lock-up, the fifth ranking China Life Insurance Company Limited is a subsidiary of the seventh ranking China Life Insurance Group Company.

2. Shenzhen Aerospace Guangyu Industrial Group Company, holder of a 17% interest in Zhongxingxin, the largest shareholder of the Company, is a wholly-owned subsidiary of CASIC Shenzhen (Group) Company, Limited, the Company's tenth ranking shareholder. Save for this relationship, there were no connected party relationships between Zhongxingxin and other top ten shareholders and top ten holders of shares not subject to lock-up, or concert party relationships, as defined under the "PRC Measures for the Management of Information Disclosure for Changes in Shareholding of Shareholders of Listed Companies".

3. Save as stated above, the Company is not aware of any connected party relationships or concert party relationships (as defined under the "PRC Measures for the Management of Information Disclosure for Changes in Shareholding of Shareholders of Listed Companies") among the top ten shareholders and the top ten holders of shares that are not subject to lock-up.

	Name of shareholder	Agreed period of shareholding
Agreed period of shareholding for strategic investors or legal persons participating in the placing of new shares	Nil	Nil

3.2.2 *Shareholdings of shareholders subject to lock-up and terms of lock-up*

There were nine shareholders of the Company subject to lock-up, the shareholdings and conditions for lock-up of which are specified as follows:

	Name of shareholder subject to lock-up	Number of shares held subject to lock-up (shares)	Permitted trading date	Number of additional tradable shares (shares)	Terms of lock-up
1.	Zhongxingxin	358,958,824	29 December 2006	47,976,083	Note 1
			29 December 2007	47,976,083	
			29 December 2008	263,006,658	
2.	Jade Dragon (Mauritius) Limited	18,290,896	29 December 2006	18,290,896	Note 2
3.	Hunan Nantian (Group) Co., Ltd	11,431,810	29 December 2006	11,431,810	Note 2
4.	Lishan Microelectronics Corporation	5,520,180	29 December 2006	5,520,180	Note 2
5.	CASIC Shenzhen (Group) Company, Limited	5,520,180	29 December 2006	5,520,180	Note 2
6.	Shaanxi Telecommunications Industrial Limited	5,520,180	29 December 2006	5,520,180	Note 2
7.	China Mobile Telecommunications No. 7 Research Institute	5,520,180	29 December 2006	5,520,180	Note 2
8.	Jilin Posts and Telecommunications Equipment Company	5,520,180	29 December 2006	5,520,180	Note 2
9.	Hebei Telecommunications Equipment Company Limited	5,520,180	29 December 2006	5,520,180	Note 2

Note 1: The following undertakings were made by Zhongxingxin, the largest shareholder of the Company in the Revised Share Reform Plan of ZTE Corporation announced on the designated website for information disclosure (http://www.cninfo.com.cn) on 23 November 2005:

Statutory undertaking: to comply with the laws, regulations and rules and perform its statutory obligations, namely not to transfer or trade the listed shares, which are converted from the Non-circulating Shares, held by it within 12 months from the first trading day after implementation of the Share Reform Plan; and not to sell its original Non-circulating Shares amounting to more than five percent of the total share capital of the Company by way of trading subsequent to their listing on the Shenzhen Stock Exchange within 12 months and not to sell more than ten percent within 24 months after the above lock-up period.

Special undertaking: Where Zhongxingxin sells its shares during the period from the 13th month to the 24th month after such shares have been granted the right of listing and circulation on the Shenzhen Stock Exchange, the price at which the shares are sold shall not be less than RMB30.76 per share, which is 115% of the mathematical average of the closing prices of its A shares for the 60 trading days prior to the initial announcement made by the directors of the Company regarding the Share Reform Plan, that is, RMB26.75 per share (such price to be calculated on an ex-rights basis and net of any dividends, bonus issues and capitalization of capital reserve during the period from the implementation date of the Share Reform Plan to the date of sale). The proceeds from any sale by Zhongxingxin in breach of such undertaking shall be reverted to the Company's account for the benefit of all shareholders of the Company.

Note 2: To comply with the laws, regulations and rules and perform its statutory obligations, namely not to transfer or trade the listed shares, which are converted from the Non-circulating Shares, held by it within 12 months after implementation of the Share Reform Plan.

3.2.3 *Permitted trading date for shares subject to lock-up*

Date	Number of shares available for listing and trading upon expiry of the lock-up period	Balance of shares subject to lock-up	Balance of shares not subject to lock-up
29 December 2006	110,819,869	310,982,741	110,819,869
29 December 2007	47,976,083	263,006,658	158,795,952
29 December 2008	263,006,658	0	421,802,610

3.3 Changes in controlling shareholder and de facto controller

☐ Applicable √ Not applicable

3.4 Purchase, sale and redemption of shares

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

§4. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

4.1 Changes in the Shareholdings of the Company's Directors, Supervisors and Senior Management of the Company

☐ Applicable √ Not applicable

§5. MANAGEMENT DISCUSSION AND ANALYSIS

5.1 Review of Business during the first half of 2006

Overview of the telecommunications industry in China for the first half of 2006

China's telecommunications industry maintained sustainable growth during the first half of 2006. According to the statistics from the Ministry of Information Industry, revenue for the telecommunications sector in China grew by 10.7% to RMB313.9 billion and capital expenditure China grew by 9.1% to RMB84.87 billion, as compared to the same period last year. There were notable changes in the investment structure as investments in CDMA and PHS declined further. Against the background of the impending 3G launch in the nation, carriers made timely moves to realign their investments in tandem with the 3G era. China Telecom and China Netcom strengthened their organic development, and sharply decreased their investments in traditional fixed-lines and PHS; China Mobile increased its investment in new technologies, new businesses and business network support systems with an increasing level of centralised procurement, while China Unicom diverted its investment to GSM networks.

Overview of the global telecommunications industry for the first half of 2006

The global telecommunications sector maintained its growth trend during the first half of 2006. According to the statistics from Gartner, wireless communications will continue to maintain an appropriate growth rate, of which the growth rates in the emerging markets in the Middle East, Africa, Latin America, Central and Eastern Europe and Asia-Pacific will be significantly higher than the global average.

The mobile communications sector was the fastest-growing sector among the telecommunications equipment market, imposing enormous pressure upon the fixed-line sector. As a result of efforts by major carriers, the number of global 3G users exceeded the 100-million threshold. The 3G sector was heading into a new stage of development, underpinned by commercial application of the maturing HSDPA technology. A new cycle of industry restructuring began for the telecommunications sector as carriers and equipment manufacturers alike were actively engaged in mergers and acquisitions. Through mergers and acquisitions, large-scale telecommunications equipment manufacturers set new standards in terms of cost control, technological innovation and increased operational efficiency to put other smaller companies under further pressure.

Operating results of the Group for the first half of 2006

Against the backdrop of adjustments in the investment structure of domestic carriers which had a substantial impact on the Company and an increasingly competitive international market, the management of the Company managed to implement its annual strategic plans, realising the Group's objectives of strategic adjustments and market optimization for the first half of the year.

In view of the changes in the domestic market, the Group has enhanced the organisation and set-up of its domestic distribution system, and increased its investment into international markets. The international markets maintained a favourable growth rate, particularly since global market coverage was basically completed last year. During the first half of 2006, the Company has further implemented its development strategy for multi-national carriers and developed markets. In North America, the Company has sought to enter the market by introducing new products with the establishment of trial stations and commercial stations for CDMA systems and terminals, fixed line terminals and broadband access. Business relationships have been established with carriers.

Based on financial statements prepared under PRC GAAP, revenue from the Group's principal operations amounted to RMB10.491 billion in the first half of 2006, representing a 1.82% increase compared to the same period last year. Net profit dropped 45.69% to RMB373 million. Earnings per share amounted to RMB0.39 while net cash outflow from operating activities amounted to RMB2.95 per share.

Based on financial statements prepared under Hong Kong Accounting Standards, revenue from the Group's principal operations amounted to RMB10.491 billion in the first half of 2006, representing a 1.82% increase growth compared to the same period last year. Net profit dropped 47.44% to RMB347 million. Earnings per share amounted to RMB0.36 while net cash outflow from operating activities amounted to RMB3.03 per share.

Operating results of major products

Analysed in terms of products, the Company's terminals business saw significant improvement in terms of market coverage and gross margin. There has been a rapid growth in value-added services and data products, as well as smooth expansion in wireless systems and optical communications in the international markets. Enhancements in our overall product structure continued with more balanced contribution by each product.

Wireless communications products

The Group's system products cover GSM, CDMA, PHS systems of 2G and WCDMA, CDMA2000 and TD-SCDMA products of 3G. In the first half of 2006, as a result of adjustments in the investment structure of domestic carriers, there has been a sharp decrease in the investment in the Group's traditional leading-edge products (such as CDMA and PHS systems) but an increase in the investment in certain new products. In the domestic market, the Group has seized upon new investment opportunities by expanding its investment in the rural communications project and mobile GSM network. In the international market, breakthroughs were achieved in countries such as Eastern Europe and Central America through strengthened cooperation with overseas carriers, in addition to maintaining continuous growth in traditional markets such as India.

In terms of 3G products, the Group has completed preparations for the construction of its domestic 3G network. In TD-SCDMA testing, products of the Group have achieved anticipated results. At the same time, experiments on WCDMA and CDMA-EVDO and commercial use of the Group's products have also expanded overseas as it concluded the world's first EV-DO Rev.A commercial contract. WCDMA partnerships have been established with multinational carriers in developed markets.

Optical communications and data communications products

The Group provides a variety of data communications equipment such as NGN, IPTV, DSL systems, routers, routing switches and wireless access data products. During the first half of 2006, optical communications and data products maintained their growth trend. IPTV continued to expand on its leading position, and constructed the first IPTV commercial network of H.264 standard in China. The Group strengthened its cooperation at a deeper level with carriers through large-scale applications in major cities such as Beijing and Shanghai, demonstrating to the Group's domestic and overseas customers the Company's technological capabilities in developing high-end business. In line with the adjustment in the investment direction of domestic carriers, there was growth in the broadband access and multi-media terminals businesses. There was also growth in the sales of transmission products to major domestic carriers, as the Group successfully bidded for the six transmission cables of China Telecom. In the international market, the Group achieved breakthroughs in certain countries in Asia-Pacific and Africa, while entering into cooperation with certain multi-national carriers in the developed markets.

Wireline switch and access products

Traditional switch and access markets experienced a significant decline during the first half of 2006, with domestic carriers diverting their investment focus to the implementation of network intelligence projects. In close tracking of such adjustment, the Group provided to the carriers conceptual input and suggestions for the construction of fixed line networks with a view to opening up market niche for other products. Fixed line intelligence products of the Group, particularly caller tunes and multimedia messaging systems, experienced rapid growth.

Handsets

The global terminal market maintained relatively rapid growth over the past two years. According to the statistics from Gartner, total handset delivery for the first quarter of this year reached 224 million, increasing 23.8% as compared to the same period last year, with particularly strong user growth in developing markets. During the first quarter, sales in Eastern Europe, Middle East and Africa, Latin America and Asia-Pacific regions grew by more than 30% as compared to the same period last year. Strong sales of low-end and ultra low-end handsets are pivotal to the growth in developing markets.

The Group's handsets business enjoyed sound growth in the first half of the year in line with developments in the global trend. The Group provides handsets of various technical specifications ranging from 2G to 3G. During the first half of 2006, the Group continued to increase its investment in the research and development of handsets, particularly that of 3G handsets, and introduced a variety of models that had been designed to meet market trends and development, including GSM/PHS and 3G products. At the same time, the Group sought to sustain profitability through strict cost control. In terms of market sales, the Group mainly entered into direct sales with carriers. By expanding its cooperation with overseas carriers, such as those in the India market and providing products that cater local needs, the Group successfully mitigated the negative impact of the decline of the domestic market for PHS handsets and achieved continuous growth for this product.

The Group's 3G handsets and data cards has further expanded in the international market, with growth in both sales and number of customers. The Group has continued to provide multi-national carriers in developed countries with WCDMA terminals. EV-DO network cards have been the subject of bulk purchases by mainstream carriers in developed countries in North America. In relation to TD-SCDMA, the Group has also successfully obtained the first approval for the network trial of the TD-SCDMA terminal from the Ministry of Information Industry. The Group will continue to promote customer relationship with carriers, especially cooperation with multi-national carriers, by providing more new models and customized products, in order to promote the sales of 3G handset products.

5.2 Management Discussion and Analysis in accordance with PRC GAAP

5.2.1 *Breakdown by industry and product segment*

By industry or product	Revenue from principal operations *(RMB in thousands)*	Costs of principal operations *(RMB in thousands)*	Profit margin of principal operations	Increase/decrease in revenue from principal operations compared with the same period last year	Increase/decrease in cost of principal operations compared with the same period last year	Increase/decrease in profit margin compared with the same period last year
I. By Industry						
Telecommunications equipment	10,490,529	6,826,915	34.50%	1.82%	6.28%	Decrease by 2.8 percentage points
II. By Product						
Wireless communications products	3,513,422	1,939,906	44.37%	-25.21%	-20.41%	Decrease by 3.39 percentage points
Wireline switch and access products	1,074,977	683,234	36.02%	49.18%	81.12%	Decrease by 11.28 percentage points
Optical and data communications products	1,710,492	1,222,698	28.10%	14.70%	24.83%	Decrease by 5.86 percentage points
Handsets	2,134,076	1,586,511	25.24%	-3.64%	-19.88%	Increase by 15 percentage points
Telecommunications software systems, services and other products	2,057,562	1,394,566	31.80%	74.59%	114.81%	Decrease by 12.76 percentage points
Total	10,490,529	6,826,915	34.50%	1.82%	6.28%	Decrease by 2.8 percentage points
Of which: Connected transactions	16,508	10,945	33.70%	-48.02%	-45.99%	Decrease by 2.5 percentage points

Pricing principle for connected transactions*	The prices for connected transactions between the Company and connected parties were basically consistent with market prices.
Statement on the necessity and continuity of the connected transactions	Sales by the Company to the connected parties mainly related to distribution of the Company's products by the connected parties as agent. Such transactions will continue in future.

Of which: Connected transactions involving sales of products or provision of labour services to the controlling shareholder and its subsidiaries by the Company during the Reporting Period amounted to RMB75,000.

* The above references to connected transactions relate to connected transactions as defined under PRC laws and regulations.

5.2.2 *Breakdown of principal operations by geographic segment:*

Region	Revenue from principal operations *(RMB in thousands)*	Increase/decrease in revenue from principal operations as compared to the same period last year	Profit from principal operations *(RMB in thousands)*
The PRC	6,529,012	-8.76%	2,249,333
Asia (excluding the PRC)	1,746,638	-12.29%	539,700
Africa	1,416,392	36.08%	450,273
Others	798,487	595.03%	380,364
Total	10,490,529	1.82%	3,619,670

5.3 Management Discussion and Analysis in accordance with Hong Kong Accounting Standards

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

Turnover

Unit: RMB in millions

Product Segment	For the six months ended 30 June 2006 Revenue	As a percentage of turnover	For the six months ended 30 June 2005 Revenue	As a percentage of turnover
Wireless communications	**3,513.4**	**33.5%**	4,698.0	45.6%
Wireline switch and access	**1,075.0**	**10.3%**	720.6	7.0%
Optical and data communications	**1,710.5**	**16.3%**	1,491.3	14.5%
Handsets	**2,134.1**	**20.3%**	2,214.6	21.5%
Telecommunications software systems, services and other products	**2,057.5**	**19.6%**	1,178.5	11.4%
Total	**10,490.5**	**100.0%**	10,303.0	100.0%

The following table sets out sales revenue of the Group and the corresponding percentage of the total turnover attributable to the PRC, Asia (excluding the PRC), Africa and other regions for the periods indicated:

Unit: RMB in millions

Region	For the six months ended 30 June 2006 Revenue	As a percentage of turnover	For the six months ended 30 June 2005 Revenue	As a percentage of turnover
The PRC	**6,529.0**	**62.2%**	7,155.8	69.5%
Asia (excluding the PRC)	**1,746.6**	**16.7%**	1,991.5	19.3%
Africa	**1,416.4**	**13.5%**	1,040.8	10.1%
Others	**798.5**	**7.6%**	114.9	1.1%
Total	**10,490.5**	**100.0%**	10,303.0	100.0%

The Group's turnover increased by 1.82% as compared to the same period last year to RMB10,491 million for the first six months of 2006. Turnover from international sales registered solid growth of 25.87% to RMB3,962 million. Analyzed by product, revenue from the wireline switch and access segments, optical and data communications segment and telecommunications software systems segment all recorded growth from the corresponding period last year, offsetting decreases in sales revenue from the wireless communications products and handsets to result in marginal growth in total turnover for the Group for the first six months of 2006 over the same period in the previous year.

The decrease in revenue from the Group's wireless communications segment was attributable to investment adjustments in that segment by domestic carriers as compared to the same period last year.

Growth in the turnover from the Group's wireline switch and access segment was mainly attributable to increased international sales.

Growth in the turnover from the Group's optical and data communications segment was mainly attributable to increased domestic sales. Growth in the domestic sales for the Group's optical transmission products and DSL products was partially offset by decreased international sales.

Decrease in the turnover from the Group's handset products was mainly attributable to a decrease in domestic sales, although this decrease was partially offset by growth in international sales driven by record sales of 3G handsets and substantial increase of CDMA handsets over the same period in the previous year.

Increase in the turnover from the Group's telecommunications software systems, services and other products segment was mainly attributable to the substantial increase in the sales of fixed terminals, IPTVs and modems.

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 turnover 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 2006 Cost of sales	As a percentage of revenue from the product segment	For the six months ended 30 June 2005 Cost of sales	As a percentage of revenue from the product segment
Wireless communications	**1,971.8**	**56.1%**	2,517.7	53.6%
Wireline switch and access	**684.2**	**63.6%**	365.0	50.7%
Optical and data communications	**1,229.7**	**71.9%**	1,106.5	74.2%
Handsets	**1,542.4**	**72.3%**	1,872.8	84.6%
Telecommunications software systems, services and other products	**1,395.8**	**67.8%**	659.4	56.0%
Total	**6,823.9**	**65.0%**	6,521.4	63.3%

Unit: RMB in millions

Product Segment	For the six months ended 30 June 2006 Gross profit	Gross profit margin	For the six months ended 30 June 2005 Gross profit	Gross profit margin
Wireless communications	**1,541.6**	**43.9%**	2,180.3	46.4%
Wireline switch and access	**390.8**	**36.4%**	355.6	49.3%
Optical and data communications	**480.8**	**28.1%**	384.8	25.8%
Handsets	**591.7**	**27.7%**	341.8	15.4%
Telecommunications software systems, services and other products	**661.7**	**32.2%**	519.1	44.0%
Total	**3,666.6**	**35.0%**	3,781.6	36.7%

The cost of sales of the Group's principal operations increased 4.64% year-on-year to RMB6,824 million. The Group's overall gross profit margin dropped slightly to 35.0%, primarily as a result of reduced gross profit margin for wireless communications, wireline switch and access and other products, although the decrease was partially offset by growth in gross profit margin for handsets.

Cost of sales for the Group's wireless communications systems decreased by 21.68% to RMB1,972 million, while the segment's gross profit margin was 43.9% compared to 46.4% for the same period last year. The lower gross profit margin for wireless communications systems was mainly attributable to decreased gross profit margin for GSM systems as a result of intense competition in the market, which was partially offset by improved gross profit margin for CDMA systems and PHS systems. Gross profit margin for the Group's CDMA systems products increased mainly as a result of higher gross profit margin generated from international sales, while gross profit margin for the PHS systems benefited from network upgrade projects by domestic carriers during the period.

Cost of sales for the Group's wireline switch and access products amounted to RMB684 million, increasing by 87.45% compared to the same period last year. Gross profit margin for the Group's wireline switch and access segment decreased to 36.4% from 49.3% for the same period last year amid increasing competition for the segment.

Cost of sales for the Group's optical and data communications products amounted to RMB1,230 million, increasing by 11.13% compared to the same period last year. The increase in gross profit margin for the Group's optical and data communications segment to 28.1% from 25.8% for the same period last year was mainly attributable to the substantial increase in gross profit margin for the DSL products, which was partially offset by the decrease in gross profit margin for other products as the NGN systems have yet to be utilised on a large-scale in the domestic market.

Cost of sales for the Group's handset products amounted to RMB1,542 million, decreasing by 17.64% compared to the same period last year. Gross profit margin for the Group's handsets segment rebounded to 27.7% from 15.4% for the same period last year, which was mainly attributable to effective cost reductions resulting from improved manufacturing processes, substantial improvement in gross profit margin for international sales of CDMA handsets underpinned by increased sales volume and gross profit margin in South Asia and Latin America, and the normal sales during the current period of certain inventories for which provision for impairment losses had been made in the previous period. Overall, gross profit margin for handsets enjoyed solid year-on-year growth.

Cost of sales for the Group's telecommunications software systems, services and other products amounted to RMB1,396 million, increasing by 111.68% compared to the same period last year. Gross profit margin for the Group's telecommunications software systems, services and other products segment declined to 32.2% from 44.0% for the same period last year. The decline reflected primarily increased sales of lower margin products and decreased sales of higher margin products, such as software and services, as a percentage of total sales revenue.

Other income and revenue, net

The net amount of other income and revenue for the six months ended 30 June 2006 was RMB281 million, which was effectively even compared with the same period last year, as increased income from VAT subsidies was offset by the decrease in technology funding granted by the government.

Research and development costs

The Group's research and development costs for the first six months of 2006 increased by 9.71% to RMB1,255 million from RMB1,144 million for the same period last year, or from 11.11% to 11.97% as a percentage of turnover. The increase was mainly attributable to the increase in research and development management expenses as a result of increased technical cooperation projects and purchases of research and development equipment.

Selling and distribution costs

The Group's selling and distribution costs for the first six months of 2006 increased by 7.56% to RMB1,598 million from RMB1,485 million for the same period last year, or from 14.42% to 15.23% as a percentage of turnover, mainly as a result of increased travel and rental expenses in line with the expansion of our overseas market.

Administrative expenses

Administrative expenses increased by 32.50% to RMB652 million, as compared to RMB492 million for the same period last year, or from 4.78% to 6.21% as a percentage of income from principal operations. The increase was mainly attributable to stronger management support for marketing activities.

Other operating income/(expenses), net

The Group recorded an operating income of RMB64 million for the first six months of 2006, decreasing by 228.84% compared to RMB50 million in other operating expenses for the same period last year. This was primarily the result of a reversal in the provision for impairment in accounts receivable following a decrease in estimated loss from bad and doubtful debts, combined with an increase in exchange gains resulting from a relatively modest appreciation in the value of RMB and a realigned mix of the Group's assets and liabilities denominated in foreign currencies.

Profit from operating activities

The Group's profit from operating activities for the first six months of 2006 decreased by 43.13% to RMB507 million from RMB891 million for the first six months of 2005 primarily as a result of increased administrative expenses as a percentage of revenue from principal operations, lower gross profit margin and increased research and development costs.

Finance costs

The Group's finance costs for the first six months of 2006 decreased by 27.84% to RMB54 million from RMB75 million for the same period last year primarily as a result of lower financing costs owing to reduced factoring loans.

Tax

The Group's income tax expense for the first six months of 2006 decreased by 30.07% to RMB52 million from RMB74 million for the same period last year, but increased from 9.11% to 11.47% as a percentage of pre-tax profit. The increase was mainly attributable to the decrease in contribution to profit before taxation from subsidiaries of the Group which were entitled to lower tax rates or other tax concessions.

Minority interests

The Group's minority interests for the first six months of 2006 amounted to RMB54 million, 33.55% down from RMB82 million for the same period last year, but rose from 11.0% to 13.52% as a percentage of net profit. The rise was mainly attributable to reduced operating profit for the period.

Net profit and net profit margin

Net profit (after minority interests) of the Group for the period decreased by 47.44% to RMB347 million, compared to RMB660 million for the same period in 2005. Net profit margin (excluding minority interests) was lower at 3.3% compared to 6.4% for the same period in 2005.

Cash flow data

Unit: RMB in millions

Item	For the six months ended 30 June 2006	For the six months ended 30 June 2005
Net cash inflow/(outflow) from operating activities	**(2,909.7)**	(2,579.5)
Net cash inflow/(outflow) from investing activities	**(307.3)**	(430.6)
Net cash inflow/(outflow) from financing activities	**681.0**	(806.4)
Net increase/(decrease) in cash and cash equivalents	**(2,536.0)**	(3,816.5)

Operating activities

The Group had a net cash outflow from operating activities of RMB2,910 million for the first six months of 2006 compared to a net cash outflow of RMB2,580 million for the same period last year, primarily as a result of the cash outflow of RMB3,641 million resulting from an increase in working capital for the first six months of 2006 compared to a net cash outflow of RMB3,278 million for the first six months of 2005, and the reduction of operating profit before changes in working capital by 24.09% to RMB731 million for the first six months of 2006 from RMB963 million for the first six months of 2005. The increase in working capital was mainly attributable to an increase of RMB1,656 million in trade and bill receivables and RMB560 million in contract amounts due from customers coupled with increased inventory, while trade and bill payables and contract amounts due to customers decreased. Trade and bill receivables for the first six months of 2006 increased in line with the increase in the percentage completion of contracted projects ahead of schedule, and, contract amounts due from customers increased as a result of business growth and accumulative increase of outstanding sales contracts. The reduction in contracted services due to customers reflected the decrease in prepayments received by the Group for telecommunications contracts. Reductions in trade and bill payables reflected the increase in payments to suppliers.

Investing activities

The net cash outflow from the Group's investment activities for the first six months of 2006 was RMB307 million compared to RMB431 million for the same period last year. The cash was mainly used for building refurbishment in the expansion of the Group's operations and scale of production, including acquisition of equipment and facilities, testing apparatus, computers and additional office equipment, as well as in the construction of the ZTE Industrial Park in Shenzhen and research and development centers in Nanjing and Shanghai.

Financing activities

The Group had a net cash inflow from financing activities for the first six months of 2006 of RMB681 million, which mainly represented bank loans in the amount of RMB680 million borrowed during the period.

Disclosure required under the Rule Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange Listing Rules")

In compliance with paragraph 40 of Appendix 16 to the Hong Kong Stock Exchange Listing Rules, the Company confirms that, save as disclosed herein, there has been no material change in the current information regarding the Company in relation to those matters set out in paragraph 32 of Appendix 16 to the Hong Kong Stock Exchange Listing Rules from the information disclosed in the 2005 Annual Report of the Company.

5.4 **Other business operations with material impact on net profit**

□ Applicable √ Not applicable

5.5 **Operations of investee companies (applicable to gains on investment representing 10% or more of net profit)**

□ Applicable √ Not applicable

5.6 **Reasons for substantial change in principal business and its structure compared to the same period last year and last year**

√ Applicable □ Not applicable

Product Segment	As a percentage of revenue from principal operations: Compared to the full year of 2005	Compared to the first six months of 2005
Wireless communications[1]	Decrease by 7.90 percentage points	Decrease by 12.11 percentage points
Handsets	Decrease by 2.51 percentage points	Increase by 3.25 percentage points
Telecommunications software systems, services and other products	Increase by 0.76 percentage points	Increase by 1.83 percentage points
Wireline switch and access	Increase by 0.26 percentage points	Decrease by 1.15 percentage points
Optical and data communications[2]	Increase by 9.39 percentage points	Increase by 8.18 percentage points

Note 1: The significant decrease in revenue from wireless communications products as a percentage of revenue from principal operations, as compared to the same period and the full year last year, was mainly attributable to adjustments in the investment structure of domestic carriers.

Note 2: The significant increase in revenue from optical communications and data communications products wireless communications products as a percentage of revenue from principal operations, as compared to the same period and the full year last year, was mainly attributable to increased domestic sales of such products.

5.7 **Reasons for substantial change in the profitability (gross profit margin) of principal business compared to last year**

□ Applicable √ Not applicable

5.8 **Analysis of reasons for substantial change in profit structure compared to last year**

√ Applicable □ Not applicable

Item	As a percentage of total profit for the six months ended 30 June 2006	As a percentage of total profit for the twelve months ended 31 December 2005	Increase/decrease
Profit from principal operations	749.50%	501.07%	Increase by 248.43 percentage points[(1)]
Profit from other operations	5.71%	1.05%	Increase by 4.66 percentage points
Expenditure during the period	698.65%	429.40%	Increase by 269.25 percentage points[(2)]
Investment gains	0.14%	-3.95%	Increase by 4.09 percentage points
Subsidy income	43.87%	30.50%	Increase by 13.37 percentage points
Net balance of non-operating profit	-0.57%	0.73%	Decrease by 1.30 percentage points

Note 1: The increase in profit from principal operations as a percentage of total profit was mainly attributable to the growth in operating expenses and costs (reflected in administrative expenses).

Note 2: The increase in expenses as a percentage of total profit was mainly attributable to the increase in marketing expenses and research and development costs (reflected in administrative expenses).

5.9 **Use of Proceeds**

5.9.1 *Use of Proceeds*

√ Applicable □ Not applicable

Unit: RMB in ten thousands

Total proceeds	354,217.8
Use of proceeds during the reporting period	19,465.7
Use of proceeds on a cumulative basis	349,202.4

Committed projects	Amount of proceeds proposed to be invested	Any changes to project	Amount actually invested from proceeds	Earnings generated	Whether project schedule has been met	Whether expected earnings has been attained
IP switching platforms for mobile communications	24,039.0	No	24,039.0	See below	Yes	Yes
Integrated mobile broadband service systems	22,525.0	No	22,525.0	See below	Yes	Yes
High speed packet mobile communication base station systems	23,820.0	No	21,576.1	See below	Yes	Yes
Intelligent wireless integrated access systems	12,890.1	No	12,890.1	See below	Yes	Yes
Core routers	20,838.0	No	18,066.5	See below	Yes	Yes
NGN systems	20,118.0	No	20,118.0	See below	Yes	Yes
Automated optical switching network systems	17,457.0	No	17,457.0	See below	Yes	Yes
Sub-total	141,687.1	—	136,671.7	—	—	—
Overseas operations	212,530.7	No	212,530.7	See below	Yes	Yes
Total	354,217.8	—	349,202.4	See note	—	—

Note: The Group seeks to improve its utilization of idle proceeds by applying them as working capital, where permitted by project schedules, to reduce requirements for banking facilities and achieve savings in financing costs. Meanwhile, funds will be invested in relevant projects in strict adherence to planned schedules.

Project progress and earnings from the projects are set out below:

IP switching platforms for mobile communications

Research and development of the project was progressing as scheduled. The IP switching platforms for mobile communications for NGN network, base station controllers and the IP switching platform supporting numerous core networks based on 3G wireless standards were completed, putting the Company in a leading position in the industry. Mass production of IP switching platforms has commenced and the project is expected to generate sound earnings following commercial application by domestic mobile networks and in numerous countries around the world.

Integrated mobile broadband service system

Research and development of the integrated service platform for this project was completed and products in connection with services including network paging, network conferences, one-touch dialing, caller tunes, soft terminal communications, SMS and WAP were being extensively used in the networks of domestic carriers. Moreover, such products were also employed to provide value-added services to telecommunications carriers in countries including Columbia, Malaysia, the Philippines and Pakistan. In future, the integrated platform will be able to support services on PSTN, PHS, GSM, CDMA, 3G and NGN networks simultaneously. Given its competitive edge in technology, this project has potentially good prospects.

High-speed packet mobile communications base station systems

Research and development for the project was progressing smoothly with the completion of development of various advanced functions and the introduction of the CDMA2000 EV-DO RevA system which promises superior performance. Currently, ZTE's CDMA2000 1xEV-DO products are being put to large-scale commercial application in global markets, with presence in various countries and regions including Asia-Pacific, Africa, Northern Europe and South America. ZTE became the focus of the industry after as it had been officially awarded the world's first EV-DO Rev.A commercial contract in May 2006.

Intelligent wireless integrated access systems

Certain products under this project have been successfully launched following completion of product development. Meanwhile, initial results have been achieved in connection with next-generation intelligent wireless integrated access system products equipped with expanded connectors to access 3G networks. As product capability continuously improves, these systems will have the capacity to meet the demands of the international market, and will become intelligent wireless integrated access systems suitable for the development of next generation networks. As a result, there will be bright prospects for such products.

Core routers

Research and development has been completed for the project, which has passed the stringent testing procedures of China Telecom Research Institute with outstanding performance. The high-end routers have been put to commercial application. Contracts have been awarded to construct core connections in the next-generation CNGI backbone networks for numerous carriers, including China Mobile and China Unicom, as well as to undertake trial projects of urban networks in various provinces for China Telecom's CN2. Positive results have been achieved in its market launch with encouraging responses from users.

NGN systems

The launch of bulk-volume media gateway equipment and softswitch control equipment in 2005 have resulted in such products becoming benchmark products in the industry. Our NGN system is currently being applied in the long-distance softswitch commercial trial network of China Telecom and the Shanghai International Station project, as well as in fixed-line convergence stations or commercial NGN projects in areas including Guangdong, Shanghai, Wuhan, Chongqing, Sichuan, Liaoning and Inner Mongolia, indicating that ZTE's proprietary NGN systems are fully capable of providing services on a large-scale and are capable of meeting increasing requirements of users.

Automated optical switching network systems

Research and development of automated optical switching network systems for commercial application has been completed. Preparations for the commencement of trial stations and preliminary marketing are currently under way. Automated optical switching network technologies prepare operators for future requirements in telecommunications as it facilitates the introduction of new businesses with ease, as well as enhancing operational management of optical networks. Prospects are promising as carriers are expected to deploy automated optical switching systems in the coming years, first in the backbone networks and then gradually extending to urban and regional networks.

Overseas Operations

The investment of issue proceeds in overseas operations resulted in positive returns as the Group's overseas business recorded growth in the first half of 2006.

5.9.2 *Changes to projects*

□ Applicable √ Not applicable

5.10 Revised plan for the Board of Directors' operational plan for the second half of the year

□ Applicable √ Not applicable

5.11 Warnings of and reasons for any expected accumulated loss from the beginning of the year to the end of the following reporting period or substantial change in profitability compared to the same period last year

□ Applicable √ Not applicable

5.12 Explanatory statement from the Board of Directors on the accountant's "qualified opinion" for this reporting period

□ Applicable √ Not applicable

5.13 Explanatory statement from the Board of Directors on changes and treatment of matters relating to the accountant's "qualified opinion" for last year

□ Applicable √ Not applicable

5.14 Business outlook and risk warnings for the second half of 2006

√ Applicable □ Not applicable

5.14.1 *Business outlook for the second half of 2006*

In view of the market situation and competition, both domestic and international, the Group will seek to improve its operating performance during the second half of the year by focusing its efforts on the following:

- continuing to focus on refined management and operational efficiency of the international distribution system and increase efforts to achieve breakthroughs in developed countries and the market for multi-national carriers, to further improve the Group's competitiveness in the international market;
- continuing to consolidate and optimise domestic marketing regimes; and
- implementing the shift in focus from business and technology-based units to sales-based units with a view to enhancing the management of product line operation and its profitability.

5.14.2 *Risk exposure*

The Group's international business involves more than 100 countries and regions in which major differences exist in terms of politics, laws, taxation, market profile and culture, imposing high demands on the business capabilities of the Group.

§6. SIGNIFICANT EVENTS

6.1 Acquisition and Sale of Assets and Asset Reorganization

6.1.1 *Acquisition or Purchase of Assets*

□ Applicable √ Not applicable

6.1.2 *Sale or Disposal of Assets*

□ Applicable √ Not applicable

6.1.3 *Progress of the event and its effects on the operational results and financial position for the reporting period subsequent to the publication of the asset reorganization report or the announcement on acquisition or sale of assets*

□ Applicable √ Not applicable

6.2 Guarantee

√ Applicable □ Not applicable

External Guarantees Provided by the Company (excluding guarantees in favour of subsidiaries)

Guaranteed party	Date of incurrence (date of execution of relevant agreements)	Amounts guaranteed	Type of guarantee	Term	Whether fully performed	Whether provided in favour of connected parties (Yes/No)
Nil	Nil	0	Nil	Nil	Nil	Not applicable

Total amount guaranteed during the reporting period	0
Total balance of amount guaranteed at the end of the reporting period (A)	0
Guarantees provided in favour of subsidiaries	
Total amount guaranteed in favour of subsidiaries during the reporting period *(Note)*	RMB8.64 million
Total balance of amount guaranteed in favour of subsidiaries at the end of the Reporting Period (B)	RMB8.64 million
Total amount guaranteed by the Company (including guarantees in favour of subsidiaries)	
Total amount guaranteed (A+B)	RMB8.64 million
Total guaranteed amount as a percentage of net assets of the Company at the end of the reporting period	0.08%
Of which:	
Amounts of guarantees provided in favour of shareholders, de facto controller and their connected parties (C)	0
Amount of debt guarantee provided directly or indirectly in favour of parties with a gearing ratio exceeding 70% (D)	0
Amount of total guarantee exceeding 50% of net assets (E)	0
Aggregated amount of the three guarantee amounts stated above* (C+D+E)	0

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

6.3 Current connected creditor's rights and debts

□ Applicable √ Not applicable

6.4 Material litigation or arbitration

√ Applicable □ Not applicable

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

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

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

2. Litigation instituted by the Group against Fairchild Semiconductor Corporation, with the court currently examining materials submitted by the two parties.

3. In December 2005, a supplier of the Company alleged that the Company had breached its contract and infringed its intellectual property and claimed indemnity for a total amount of US$36.45 million by way of overseas arbitration.

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

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

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

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

6.5 Analysis of other significant events and their effects and proposed solutions

6.5.1 *Appropriation of non-operating funds and progress of reimbursement*

□ Applicable √ Not applicable

6.5.2 *Implementation schedule for the reimbursement plan relating to appropriation of non-operating funds*

□ Applicable √ Not applicable

6.6 Special undertaking given by original holders of non-circulating shares in respect of the share reform and its performance

√ Applicable □ Not applicable

Name of shareholder	Special undertaking	Performance of undertaking
Zhongxingxin	Please refer to Note 1 to Section 3.2.2 of this announcement	Strict compliance

6.7 Implementation of the Code of Corporate Governance Practices and other Matters

6.7.1 *Compliance with the Code of Corporate Governance Practices*

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

A.1.3

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

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

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

6.7.2 *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 Companies (the "Model Code") as set out in Appendix 10 to the Hong Kong Stock Exchange 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.

6.7.3 *Audit Committee*

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

§7. FINANCIAL REPORT

7.1 This financial report has not been audited.

7.2 Accounting statements

7.2.1 *Financial statements prepared in accordance with PRC GAAP (See Appendix I)*

7.2.2 *Financial statements prepared in accordance with Hong Kong Accounting Standards (See Appendix II)*

7.2.3 *Differences in net profit for the six months ended 30 June 2006 and shareholders' equity as at 30 June 2006 prepared under PRC GAAP and Hong Kong Accounting Standards*

	For the six months ended 30 June 2006 (unaudited) *(RMB in thousands)*	For the six months ended 30 June 2005 (unaudited) *(RMB in thousands)*
Net Profit		
Net profit from ordinary activities attributable to shareholders under PRC GAAP	**373,468**	687,663
Add back/(deduct):		
Accounting standards differences		
Recognition of government grants	**(1,137)**	(14,021)
Deferred development costs	**(28,490)**	(13,689)
Deferred tax	**3,217**	—
Amortisation of goodwill	**—**	406
Net profit attributable to shareholders from ordinary activities under Hong Kong Accounting Standards	**347,058**	660,359

	As at 30 June 2006 (unaudited) *(RMB in thousands)*	As at 31 December 2005 (audited) *(RMB in thousands)*
Owners' equity		
Shareholders' equity under PRC GAAP	**10,251,664**	10,125,095
Add back/(deduct):		
Accounting standards differences		
Recognition of government grants	**(6,063)**	(4,926)
Provision for retirement benefits	**(30,459)**	(30,459)
Deferred development costs	**153,618**	182,108
Deferred tax	**(18,089)**	(21,306)
Shareholders' equity under Hong Kong Accounting Standards	**10,350,671**	10,250,512

7.3 Notes to the statements

7.3.1 *Changes in accounting policies, accounting estimates or correction of accounting errors*

□ Applicable √ Not applicable

7.3.2 *Changes regarding the scope of consolidation of the Company's financial statements*

√ Applicable □ Not applicable

Name of company	**Change**	**Reasons**
ZTE SINGAPORE PTE. LTD	Addition	New incorporation
ZTE Korea Limited	Addition	New incorporation
Xi'an ZTE Software Company Limited	Addition	New incorporation
ZTE India R&D Center Private Limited	Addition	New incorporation

7.3.3 *Explanatory statement in respect of qualified opinion/unqualified opinion*

□ Applicable √ Not applicable

By Order of the Board
Hou Weigui
Chairman

Shenzhen, PRC
25 August 2006

As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Yin Yimin, Shi Lirong and He Shiyou; six non-executive directors, Hou Weigui, Wang Zongyin, Xie Weiliang, Zhang Junchao, Li Juping and Dong Lianbo; and five independent non-executive directors, Zhu Wuxiang, Chen Shaohua, Qiao Wenjun, Mi Zhengkun and Li Jin.

APPENDIX I: FINANCIAL STATEMENTS PREPARED UNDER PRC GAAP (UNAUDITED)

BALANCE SHEET
(Prepared under PRC GAAP)

Unit: RMB in thousands

Assets	**30 June 2006 Consolidated (Unaudited)**	**30 June 2006 Company (Unaudited)**	31 December 2005 Consolidated (Audited)	31 December 2005 Company (Audited)
Current assets:				
Cash in banks and on hand	**2,980,709**	**1,975,186**	5,573,132	4,258,936
Bills receivables	**1,969,091**	**1,805,225**	1,244,853	1,209,151
Dividends receivable	**—**	**13,385**	—	16,465
Trade receivables	**4,373,263**	**5,249,879**	3,441,922	4,481,796
Factored trade receivables	**36,040**	**4,961**	36,416	5,007
Other receivables	**338,780**	**1,753,262**	279,975	1,230,352
Prepayments	**71,241**	**28,154**	151,174	67,305
Inventories	**2,868,071**	**1,572,591**	2,519,547	1,557,312
Amount due from customers for contract work	**5,249,600**	**5,141,382**	4,689,157	4,440,842
Prepaid expenses	**2,834**	**—**	—	—
Total current assets	**17,889,629**	**17,544,025**	17,936,176	17,267,166
Long-term investments:				
Long-term equity investments	**93,381**	**2,928,056**	85,459	2,833,305
Fixed assets:				
Fixed assets — cost	**3,861,460**	**2,646,009**	3,623,940	2,491,000
Less: accumulated depreciation	**1,331,844**	**812,881**	1,148,789	712,768
Net fixed assets	**2,529,616**	**1,833,128**	2,475,151	1,778,232
Less: fixed asset impairment	**94,980**	**87,002**	94,980	87,002
Fixed assets — net	**2,434,636**	**1,746,126**	2,380,171	1,691,230
Construction in progress	**209,250**	**179,557**	126,741	77,261
Total fixed assets	**2,643,886**	**1,925,683**	2,506,912	1,768,491
Intangible and other assets:				
Intangible assets	**154,354**	**76,631**	160,264	87,081
Long term trade receivables	**202,843**	**202,843**	307,666	327,122
Factored long-term trade receivables	**692,483**	**688,359**	687,765	683,598
Long-term deferred assets	**13,766**	**—**	13,996	—
Total intangible and other assets	**1,063,446**	**967,833**	1,169,691	1,097,801
Deferred taxes:				
Deferred tax assets	**80,976**	**76,419**	80,893	76,419
Total assets	**21,771,318**	**23,442,016**	21,779,131	23,043,182

LIABILITIES AND OWNER'S EQUITY

Unit: RMB in thousands

	30 June 2006 Consolidated (Unaudited)	**30 June 2006 Company (Unaudited)**	31 December 2005 Consolidated (Audited)	31 December 2005 Company (Audited)
Current liabilities:				
Short-term loans	**180,700**	**100,000**	99,695	—
Bank advances on factored trade receivables	**36,040**	**4,961**	36,416	5,007
Bills payable	**2,708,217**	**2,532,422**	1,977,584	1,918,831
Accounts payable	**3,326,232**	**5,535,973**	4,292,208	6,538,622
Amount due to customers for contract work	**509,624**	**509,624**	733,455	688,876
Advances from customers	**771,833**	**464,744**	861,024	493,438
Accrued payroll	**233,225**	**120,183**	622,804	367,583
Welfare payable	**317,856**	**237,371**	394,216	326,370
Dividends payable	**386,183**	**239,872**	163,008	928
Taxes payable	**(769,073)**	**(621,308)**	(670,282)	(844,875)
Sundry payables	**6,612**	**2,709**	7,134	2,996
Other payables	**583,204**	**1,160,567**	626,066	1,084,091
Accrued expenses	**361,577**	**287,896**	346,668	286,561
Provisions	**27,406**	**12,800**	20,035	16,000
Long-term loans due within 1 year	**500,000**	**500,000**	500,000	500,000
Total current liabilities	**9,179,636**	**11,087,814**	10,010,031	11,384,428
Non-current liabilities:				
Long-term loans	**680,000**	**600,000**	80,000	—
Bank advances on factored long-term receivables	**692,483**	**688,359**	687,765	683,598
Other long-term liabilities	**411,751**	**350,820**	405,511	359,220
Total non-current liabilities	**1,784,234**	**1,639,179**	1,173,276	1,042,818
Total liabilities	**10,963,870**	**12,726,993**	11,183,307	12,427,246
Minority interests:				
Minority interests	**555,784**	**—**	470,729	—
Owners' equity:				
Share capital	**959,522**	**959,522**	959,522	959,522
Capital surplus	**5,507,183**	**5,533,654**	5,506,424	5,532,896
Surplus reserves	**1,264,060**	**769,603**	1,264,060	769,603
of which: statutory welfare fund	**344,908**	**242,464**	344,908	242,464
Undistributed profits	**2,544,658**	**3,454,786**	2,171,190	3,116,070
Exchange differences	**(23,759)**	**(2,542)**	(15,981)	(2,035)
Declared cash dividends	**—**	**—**	239,880	239,880
Total owner's equity	**10,251,664**	**10,715,023**	10,125,095	10,615,936
TOTAL LIABILITIES AND OWNER'S EQUITY	**21,771,318**	**23,442,016**	21,779,131	23,043,182

INCOME STATEMENTS & STATEMENTS OF INCOME DISTRIBUTION (UNAUDITED)
(Prepared under PRC GAAP)

Unit: RMB in thousands

			Six months ended 30 June 2006 Consolidated	**Six months ended 30 June 2006 Company**	Six months ended 30 June 2005 Consolidated	Six months ended 30 June 2005 Company
I.		Revenue from principal operations	**10,490,529**	**9,737,942**	10,302,998	9,952,489
	Less:	Cost of sales	**6,826,915**	**7,969,060**	6,423,483	8,109,916
		Taxes and surcharges	**43,944**	**18,395**	36,443	11,474
II.		Profit from principal operations	**3,619,670**	**1,750,487**	3,843,072	1,831,099
	Add:	Profit from other operations	**27,556**	**228,558**	2,735	4,178
	Less:	Selling and distribution expenses	**1,567,996**	**965,499**	1,447,211	1,156,146
		General and administrative expenses	**1,752,021**	**663,110**	1,588,646	685,648
		Finance expense	**54,064**	**72,993**	98,706	106,277
III.		Operating profit	**273,145**	**277,443**	711,244	(112,794)
	Add:	Investment income	**694**	**64,841**	(289)	256,272
		Subsidy income	**211,860**	**24,510**	126,528	—
		Non-operating income	**3,777**	**1,556**	11,683	4,691
	Less:	Non-operating expenses	**6,534**	**3,634**	5,111	1,017
IV.		Total profit	**482,942**	**364,716**	844,055	147,152
	Less:	Income tax	**55,234**	**26,000**	74,380	—
		Minority interests	**54,240**	**—**	82,012	—
V.		Net profit	**373,468**	**338,716**	687,663	147,152
	Add:	Undistributed profits at beginning of the year	**2,171,190**	**3,116,070**	1,495,431	2,682,269
VI.		Distributable profit	**2,544,658**	**3,454,786**	2,183,094	2,829,421
	Less:	Statutory surplus reserves	**—**	**—**	—	—
		Statutory public welfare fund	**—**	**—**	—	—
VII.		Profit available for distribution to equity owners	**2,544,658**	**3,454,786**	2,183,094	2,829,421
	Less:	Discretionary common reserve	**—**	**—**	—	—
		Ordinary shares dividends payable	**—**	**—**	—	—
		Ordinary shares dividends converted to shares	**—**	**—**	—	—
VIII.		Undistributed profits	**2,544,658**	**3,454,786**	2,183,094	2,829,421

Supplemental Information

	Item	**Six months ended 30 June 2006**	Six months ended 30 June 2005
1.	Gains received from sale or disposal of business departments or investee units	**—**	—
2.	Losses resulting from natural disaster	**—**	—
3.	Increase (or decrease) in total profit as a result of changes in accounting policies	**—**	—
4.	Increase (or decrease) in total profit as a result of changes in accounting estimates	**—**	—
5.	Losses resulting from debt restructuring	**—**	—
6.	Others	**—**	—

CASH FLOW STATEMENT (UNAUDITED)
(Prepared under PRC GAAP)

Unit: RMB in thousands

		For the six months ended 30 June 2006 Consolidated	Company
1.	**Cash flow from operating activities**		
	Cash received from sale of goods or provision of services	8,954,497	8,340,632
	Tax refund received	499,777	314,174
	Cash received from other operating activities	49,949	41,697
	Sub-total of cash inflow	9,504,223	8,696,503
	Cash paid for goods and services	8,235,078	8,975,068
	Cash paid to and on behalf of employees	2,080,913	968,665
	Cash paid for all types of taxes	562,541	83,894
	Cash paid in other operating activities	1,460,484	1,315,011
	Sub-total of cash outflow	12,339,016	11,342,638
	Net cash flow from operating activities	(2,834,793)	(2,646,135)
2.	**Cash flow from investing activities**		
	Cash received from sales of investments	—	—
	Cash received from investment gains	126	5,630
	Net cash received from disposal of fixed assets, intangible assets and other long-term assets	1,743	1,141
	Cash received from other investing activities	—	—
	Sub-total of cash inflow	1,869	6,771
	Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	362,628	293,957
	Cash paid for acquisition of investments	6,843	—
	Cash paid for other investing activities	—	—
	Sub-total of cash outflow	369,471	293,957
	Net cash flow from investing activities	(367,602)	(287,186)
3.	**Cash flow from financing activities**		
	Cash received from investments	—	—
	Cash received from borrowings	844,700	800,000
	Cash received from other financing activities	—	—
	Sub-total of cash inflow	844,700	800,000
	Cash paid for debt repayments	163,696	100,000
	Cash paid for dividend distributions or interest expenses	62,482	45,819
	Cash paid for other financing activities	—	—
	Sub-total of cash outflow	226,178	145,819
	Net cash flow from financing activities	618,522	654,181
4.	**Effect of foreign exchange rate changes on cash**	(8,550)	(4,610)
5.	**Net decrease in cash and cash equivalents**	(2,592,423)	(2,283,750)

		For the six months ended 30 June 2006 Consolidated	Company
1.	**Investing and financing activities not involved in cash**		
	Debt conversion into capital	—	—
	Convertible bonds maturing within one year	—	—
	Fixed assets under finance lease	—	—
2.	**Net profit reconciled to cash flow from operating activities**		
	Net profit	373,468	338,716
	Add: Minority interests	54,240	—
	Provision for impairment of assets	10,308	(61,746)
	Depreciation of fixed assets	216,937	136,405
	Amortisation of intangible assets	24,911	20,766
	Amortisation of long-term prepaid expenses	—	—
	Increase in prepaid expenses	(2,834)	—
	Increase/(decrease) in accrued expenses	22,280	(1,865)
	Losses on disposal of fixed assets, intangible assets and other long term assets	4,866	3,634
	Finance expenses	36,767	49,721
	Losses on investment	(694)	(64,841)
	Decrease/(increase) in inventories	(117,288)	268,827
	Increase in operating receivables	(2,344,358)	(2,697,642)
	Decrease in operating payables	(1,113,313)	(638,110)
	Deferred tax assets	(83)	—
	Net cash flow from operating activities	(2,834,793)	(2,646,135)
3.	**Net decrease in cash and cash equivalents**		
	Cash at end of period	2,980,709	1,975,186
	Less: Cash at beginning of year	5,573,132	4,258,936
	Add: Cash equivalents at end of period	—	—
	Less: Cash equivalents at beginning of year	—	—
	Net decrease in cash and cash equivalents	(2,592,423)	(2,283,750)

Hou Weigui	**Wei Zaisheng**	**Shi Chunmao**
Legal representative	**Chief Financial Officer**	**Head of Finance Division**

APPENDIX II: FINANCIAL STATEMENTS PREPARED UNDER HONG KONG ACCOUNTING STANDARDS

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)
(Prepared under Hong Kong accounting standards)

For the six months ended 30 June 2006

	Notes	For the six months ended 30 June 2006 RMB in thousands	For the six months ended 30 June 2005 RMB in thousands
Revenue	2	**10,490,529**	10,302,992
Cost of sales		**(6,823,951)**	(6,521,433)
Gross profit		**3,666,578**	3,781,559
Other income and gains		**280,902**	280,921
Research and development costs		**(1,255,474)**	(1,144,343)
Selling and distribution costs		**(1,597,722)**	(1,485,474)
Administrative expenses		**(651,927)**	(492,006)
Other operating income/(expenses), net		**64,241**	(49,861)
Finance costs		**(53,977)**	(74,805)
Share of profits and (losses) of:			
Jointly-controlled entities		**—**	1,191
Associates		**694**	(822)
PROFIT BEFORE TAX	3	**453,315**	816,360
Tax	4	**(52,017)**	(74,380)
PROFIT FOR THE PERIOD		**401,298**	741,980
ATTRIBUTABLE TO			
Equity holders of the parent		**347,058**	660,359
Minority interests		**54,240**	81,621
		401,298	741,980
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	6		
Basic		**RMB0.36**	RMB0.69

Notes:

1. Segment information

a. *Business segment*

Group

	Wireless communications Six months ended 30 June 2006 (unaudited) RMB in thousands	2005 (unaudited) RMB in thousands	Wireline switch and access Six months ended 30 June 2006 (unaudited) RMB in thousands	2005 (unaudited) RMB in thousands	Optical and data communications Six months ended 30 June 2006 (unaudited) RMB in thousands	2005 (unaudited) RMB in thousands	Handsets Six months ended 30 June 2006 (unaudited) RMB in thousands	2005 (unaudited) RMB in thousands	Telecommunications software systems, services and other products Six months ended 30 June 2006 (unaudited) RMB in thousands	2005 (unaudited) RMB in thousands	Consolidated Six months ended 30 June 2006 (unaudited) RMB in thousands	2005 (unaudited) RMB in thousands
Segment revenue:												
Contract revenue from external customers	**3,513,422**	4,698,010	**1,074,977**	720,579	**1,710,492**	1,491,294	**—**	—	**1,667,728**	1,069,867	**7,966,619**	7,979,750
Sale of goods and services	**—**	—	**—**	—	**—**	—	**2,134,076**	2,214,613	**389,834**	108,629	**2,523,910**	2,323,242
Total	**3,513,422**	4,698,010	**1,074,977**	720,579	**1,710,492**	1,491,294	**2,134,076**	2,214,613	**2,057,562**	1,178,496	**10,490,529**	10,302,992
Segment results	**954,864**	1,484,583	**265,764**	248,842	**368,625**	163,975	**151,736**	104,043	**387,370**	294,642	**2,128,359**	2,296,085

b. *Geographical segment*

Group

	The PRC Six month ended 30 June 2006 (unaudited) RMB in thousands	2005 (unaudited) RMB in thousands	Asia (excluding the PRC) Six month ended 30 June 2006 (unaudited) RMB in thousands	2005 (unaudited) RMB in thousands	Africa Six month ended 30 June 2006 (unaudited) RMB in thousands	2005 (unaudited) RMB in thousands	Others Six month ended 30 June 2006 (unaudited) RMB in thousands	2005 (unaudited) RMB in thousands	Consolidated Six month ended 30 June 2006 (unaudited) RMB in thousands	2005 (unaudited) RMB in thousands
Segment revenue:										
Contract revenue from external customers	**4,766,620**	5,267,957	**1,208,834**	1,715,814	**1,384,102**	932,230	**607,063**	63,749	**7,966,619**	7,979,750
Sale of goods and services	**1,762,392**	1,887,823	**537,804**	275,654	**32,290**	108,629	**191,424**	51,136	**2,523,910**	2,323,242
	6,529,012	7,155,780	**1,746,638**	1,991,468	**1,416,392**	1,040,859	**798,487**	114,885	**10,490,529**	10,302,992

2. Revenue

	For the six months ended 30 June 2006 (unaudited) RMB in thousands	For the six months ended 30 June 2005 (unaudited) RMB in thousands
Revenue		
Telecommunications system contracts	**7,966,619**	7,979,750
Sales of goods and provision of services	**2,523,910**	2,323,242
Total	**10,490,529**	10,302,992

3. Profit before tax

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

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

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

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

4. Tax

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

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) 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 countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Under the relevant PRC income tax law, except for certain preferential treatment available to the Company and its subsidiaries, the Group's entities established in the PRC are subject to corporate income tax at a rate of 33% on their taxable income.

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

5. Dividends

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

6. Earnings per share attributable to ordinary equity holders of the parent

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

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

CONDENSED CONSOLIDATED BALANCE SHEET
(Prepared under Hong Kong accounting standards)

30 June 2006

	Notes	30 June 2006 (Unaudited) RMB in thousands	31 December 2005 (Audited) RMB in thousands
Non-current assets:			
Property, plant and equipment		**2,608,216**	2,470,965
Prepaid land premiums/land lease payments		**54,374**	55,062
Intangible assets		**301,633**	335,835
Investments in jointly-controlled entities		**6,588**	6,588
Investments in associates		**43,305**	35,583
Available-for-sale equity investments		**43,488**	43,288
Long-term trade receivables	2	**202,843**	307,666
Factored long-term trade receivables		**692,483**	687,765
Deferred tax assets		**62,888**	59,587
Total non-current assets		**4,015,818**	4,002,339
Current assets			
Prepaid land premiums/land lease payments		**1,401**	1,418
Inventories		**2,597,251**	2,240,327
Amount due from customers for contract work		**5,249,600**	4,689,157
Trade and bills receivables	2	**6,342,354**	4,686,775
Factored trade receivables		**36,040**	36,416
Prepayments, deposits and other receivables		**1,258,912**	1,188,313
Loan receivables		**25,262**	46,165
Pledged bank deposits		**127,982**	175,899
Cash and cash equivalents		**2,852,727**	5,397,233
Total current assets		**18,491,529**	18,461,703
Total assets		**22,507,347**	22,464,042

CONDENSED CONSOLIDATED BALANCE SHEET (continued)
(Prepared under Hong Kong accounting standards)

30 June 2006

	Notes	**30 June 2006 (Unaudited)** *RMB in thousands*	31 December 2005 (Audited) *RMB in thousands*
CURRENT LIABILITIES			
Trade and bills payables	3	**6,034,449**	6,269,792
Amount due to customers for contract work		**509,624**	733,455
Other payables and accruals		**2,321,849**	2,900,137
Interest-bearing bank borrowings		**680,700**	599,695
Bank advances on factored trade receivables		**36,040**	36,416
Tax payable		**83,589**	114,672
Dividend payable		**386,183**	163,008
Total current liabilities		**10,052,434**	10,817,175
NET CURRENT ASSETS		**8,439,095**	7,644,528
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,454,913**	11,646,867
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**680,000**	80,000
Bank advances on factored long-term trade receivables		**692,483**	687,765
Provision for retirement benefits		**30,459**	30,459
Other long-term payables		**145,516**	127,402
Total non-current liabilities		**1,548,458**	925,626
Net assets		**10,906,455**	10,721,241
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		**959,522**	959,522
Reserves		**9,391,149**	9,051,110
Proposed final dividend		**—**	239,880
		10,350,671	10,250,512
Minority interests		**555,784**	470,729
Total equity		**10,906,455**	10,721,241

1. Summary of significant accounting policies

The condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the condensed consolidated the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), HKASs and Interpretations that affect the Group:

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

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

2. Trade and bills receivables/Long-term trade receivables

Progress payment for telecommunications systems contracts is normally made in accordance with the agreed payment schedule. The Group's trading terms with its major customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 90 days and is extendable up to two years depending on customer's credit worthiness. The credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

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

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

3. Trade and bills payables

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

	Group	
	30 June 2006 (unaudited) *RMB in thousands*	31 December 2005 (audited) *RMB in thousands*
Within 6 months	**5,882,849**	6,049,126
7 to 12 months	**107,895**	142,100
1 to 2 years	**23,621**	45,968
2 to 3 years	**12,867**	5,506
Over 3 years	**7,217**	27,092
Total	**6,034,449**	6,269,792

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)
(Prepared under Hong Kong accounting standards)

For the six months ended 30 June 2006

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