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)

2011 INTERIM REPORT SUMMARY AND ANNOUNCEMENT OF RESULTS

§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 summary of report and announcement of results 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.

An interim report which contains all the information required by Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules") will be published on the website of the Stock Exchange http://www.hkexnews.hk in due course.

1.2 The interim report has been considered and approved at the Twenty-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 had authorised Mr. Wong Zhanchen, 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 2011 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 2011 interim report.

§2 PROFILE OF THE LISTED COMPANY

2.1 Corporate information

Abbreviated Name of Stock	ZTE	
Stock code	000063 (A shares)	763 (H shares)
Places of listing	The Shenzhen Stock Exchange	The Stock Exchange of Hong Kong Limited
Abbreviated Name of Bond	中興債1	
Bond code	115003	
Place of listing	The Shenzhen Stock Exchange	
Registered and office address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China	
Postal code	518057	
Principal place of business in Hong Kong	8/F Gloucester Tower, The Landmark, 15 Queen's Road Central, Central, Hong Kong	
Website	http://www.zte.com.cn	
E-mail	fengjianxiong@zte.com.cn	

	Secretary to the Board of Directors	**Securities affairs representative**
Name	Feng Jianxiong	Xu Yulong, Cao Wei
Address	6/F, A Wing, ZTE Plaza, No. 55 Keji Road South, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China	
Tel	+86 755 2677 0282	
Fax	+86 755 2677 0286	
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 ASBEs

Unit: RMB in thousands

Items	**End of the reporting period (30 June 2011)**	End of last year (31 December 2010)	Change as at the end of the reporting period compared with the end of last year
Total assets	**96,484,827**	84,152,357	14.65%
Owners' equity attributable to shareholders of the listed company	**23,051,852**	23,093,872	(0.18%)
Share capital	**2,866,732**	2,866,732	0.00%
Net asset per share attributable to shareholders of the listed company *(RMB/share)* *Note 1*	**8.22**	8.24	(0.24%)

Items	Reporting period (Six months ended 30 June 2011)	Same period of last year (Six months ended 30 June 2010)	Change compared with the same period of last year
Operating revenue	**37,336,595**	30,725,420	21.52%
Operating profit	**683,744**	673,886	1.46%
Total profit	**1,272,749**	1,392,859	(8.62%)
Net profit attributable to shareholders of the listed company	**769,271**	877,489	(12.33%)
Net profit after extraordinary items attributable to shareholders of the listed company	**(76,936)**	743,528	(110.35%)
Basic earnings per share *(RMB/share)* Note 2	**0.27**	0.32	(14.44%)
Diluted earnings per share *(RMB/share)* Note 3	**0.27**	0.31	(14.30%)
Weighted average return on net assets *(%)*	**3.29%**	4.41%	Decreased by 1.12 percentage points
Weighted average return on net assets after extraordinary items *(%)*	**(0.33%)**	3.74%	Decreased by 4.07 percentage points
Net cashflow from operating activities	**(6,171,353)**	(3,684,312)	(67.50%)
Net cashflow from operating activities per share *(RMB/share)* Note 4	**(2.20)**	(1.31)	(67.94%)

Note 1: Net assets per share attributable to the shareholders of the listed company for the first half of 2011 and at the end of period in 2010 were calculated on the basis of the total share capital as at the end of the respective period less 62,407,186 restricted shares remaining in lock-up under share incentive scheme.

Note 2: Basic earnings per share for the first half of 2011 were calculated on the basis of the weighted average number of shares less 62,407,186 restricted shares remaining in lock-up under share incentive scheme. Basic earnings per share for the same period in 2010 were calculated on the basis of the weighted average number of shares less 64,928,143 restricted shares remaining in lock-up under share incentive scheme.

Note 3: As certain Subject Share quotas under the Phase I Share Incentive Scheme of the Company remaining in lock-up gave rise to potentially dilutive ordinary shares of 61,864,408 shares and 64,928,143 shares for the reporting period and the same period of 2010, respectively, diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factors.

Note 4: Net cash flow from operating activities per share for the first half of 2011 was calculated on the basis of the total share capital as at the end of the period less 62,407,186 restricted shares remaining in lock-up under share incentive scheme. Net cash flow from operating activities per share for the same period of 2010 was calculated on the basis of the total share capital as at 30 June 2010 less 64,928,143 restricted shares remaining in lock-up under share incentive scheme.

2.2.2 *Extraordinary gains or loss items*

√ Applicable □ N/A

Unit: RMB in thousands

Extraordinary items	**Amount**
Other non-operating income	117,381
Investment gains	1,154,822
Less: Losses arising from the disposal of non-current assets	5,087
Losses arising from fair value change	236,551
Other non-operating expenses	35,027
Effect of income tax	149,331
Total	**846,207**

2.2.3 *Major financial indicators prepared in accordance with HKFRSs*

Items	**Six months ended 30 June 2011**	Six months ended 30 June 2010
Basic earnings per share *(RMB/share) Note 1*	**0.27**	0.32
Weighted average return on net assets *(%)*	**3.29%**	4.41%
Weighted average return on net assets after extraordinary items *(%)*	**(0.33%)**	3.74%

Item	**As at 30 June 2011**	As at 31 December 2010
Net asset per share attributable to shareholders of the listed company *(RMB/share) Note 2*	**8.22**	8.24

Note 1: Basic earnings per share for the first half of 2011 was calculated on the basis of the weighted average number of shares less 62,407,186 restricted shares remaining in lock-up under share incentive scheme. Basic earnings per share for the same period in 2010 was calculated on the basis of the weighted average number of shares less 64,928,143 restricted shares remaining in lock-up under share incentive scheme.

Note 2: Net assets per share attributable to the shareholders of the listed company for the first half of 2011 and at the end of period in 2010 were calculated on the basis of the total share capital as at the end of the respective period less 62,407,186 restricted shares remaining in lock-up under share incentive scheme.

2.2.4 *Differences in net profit and shareholders' equity of the Group under PRC ASBEs and HKFRSs*

□ Applicable √ N/A

The amounts of net profit and shareholders' equity of the Group for and as at the end of the reporting period calculated in accordance with PRC ASBEs are fully consistent with those calculated under HKFRSs.

§3 CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

3.1 Table of changes in share capital

Changes in share capital of the Company during the reporting period

Unit: Shares

	Opening balance (31 December 2010)		Increase/decrease (+/-) resulting from changes in the reporting period					Closing balance (30 June 2011)	
	Number	Percentage	Issue of new shares	Bonus issue	Transfer from capital reserve	Others [Note]	Sub-total	Number	Percentage
I. Shares subject to lock-up	**66,918,472**	**2.34%**	**—**	**—**	**—**	**164,974**	**164,974**	**67,083,446**	**2.34%**
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned corporate shares	—	—	—	—	—	—	—	—	—
3. Other domestic shares	60,141,711	2.10%	—	—	—	—	—	60,141,711	2.10%
Comprising: Domestic non-stated owned corporate shares									
Domestic natural person shares	60,141,711	2.10%	—	—	—	—	—	60,141,711	2.10%
4. Foreign shares	—	—	—	—	—	—	—	—	—
Comprising: Foreign corporate shares	—	—	—	—	—	—	—	—	—
Foreign natural person shares	—	—	—	—	—	—	—	—	—
5. Senior management shares	6,776,761	0.24%	—	—	—	164,974	164,974	6,941,735	0.24%
II. Shares not subject to lock-up	**2,799,813,212**	**97.66%**	**—**	**—**	**—**	**–164,974**	**–164,974**	**2,799,648,238**	**97.66%**
1. RMB ordinary shares	2,275,158,674	79.36%	—	—	—	–164,974	–164,974	2,274,993,700	79.36%
2. Domestic-listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares (H Shares)	524,654,538	18.30%	—	—	—	—	—	524,654,538	18.30%
4. Others	—	—	—	—	—	—	—	—	—
III. Total number of shares	**2,866,731,684**	**100.00%**	**—**	**—**	**—**	**—**	**—**	**2,866,731,684**	**100.00%**

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

Schedule I: Shareholdings of shareholders subject to lock-up and lock-up conditions *(Unit: shares)*

No.	Name of shareholders subject to lock-up	Number of shares subject to lock-up as at 31 December 2010	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 [Note 3]	Number of shares subject to lock-up at the end of the reporting period	Lock-up conditions	Date of unlocking
1	Hou Weigui	742,169	0	0	742,169	Restricted senior management shares	*Note 1*
2	Chen Jie	412,863	0	52,500	465,363	Restricted senior management shares and restricted shares under share incentive scheme	*Note 1, Note 2*
3	Ni Qin	395,425	0	48,675	444,100	Restricted senior management shares and restricted shares under share incentive scheme	*Note 1, Note 2*
4	Xu Huijun	390,488	84,397	94,500	400,591	Restricted senior management shares and restricted shares under share incentive scheme	*Note 1, Note 2*
5	Yin Yimin	395,520	0	0	395,520	Restricted senior management shares	*Note 1*
6	Zhao Xianming	390,487	95,625	65,032	359,894	Restricted senior management shares and restricted shares under share incentive scheme	*Note 1, Note 2*
7	Zeng Xuezhong	351,000	75,000	78,750	354,750	Restricted senior management shares and restricted shares under share incentive scheme	*Note 1, Note 2*
8	Fan Qingfeng	329,062	56,250	78,750	351,562	Restricted senior management shares and restricted shares under share incentive scheme	*Note 1, Note 2*
9	Pang Shengqing	329,502	82,376	78,750	325,876	Restricted senior management shares and restricted shares under share incentive scheme	*Note 1, Note 2*
10	Ye Weimin	288,589	0	34,118	322,707	Restricted senior management shares and restricted shares under share incentive scheme	*Note 1, Note 2*
11	Others	62,893,367	240,945	268,492	62,920,914	Restricted senior management shares and restricted shares under share incentive scheme	*Note 1, Note 2*
	Total	66,918,472	634,593	799,567	67,083,446		

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.

Note 3: Certain senior management and Supervisors of the Company acquired A shares of the Company in the secondary market. For details please refer to the "Announcement on the Purchase of the Company's Shares by the Management of the Company" published by the Company on 27 June 2011. In accordance with relevant domestic regulations, up to 25% of the newly-held unrestricted shares may be transferred by the Directors, Supervisors and senior management during the year.

3.2 Shareholdings of substantial shareholders as at end of reporting period

3.2.1 Total number of shareholders, shareholdings of top ten shareholders and top ten holders that are not subject to lock-up

Total number of shareholders 92,061 shareholders (of which 91,709 were holders of A shares and 352 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 corporate	881,826,620	30.76%	0	Nil
2. HKSCC Nominees Limited	Foreign shareholders	523,713,568	18.27%	0	Unknown
3. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	Others	64,877,422	2.26%	0	Unknown
4. CITIC Trust Co.,Ltd. — Wealth Management 06	Others	48,495,000	1.69%	0	Unknown
5. Hunan Nantian (Group) Co., Ltd	State-owned corporate	31,208,841	1.09%	0	Unknown
6. China Life Insurance Company Limited — Traditional — General Insurance Products — 005L-CT001 Shen	Others	29,267,981	1.02%	0	Unknown
7. ICBC — Guangfa Jufeng Stock Fund	Others	24,776,798	0.86%	0	Unknown
8. China Life Insurance (Group) Company Limited — Traditional — General Insurance Products	Others	22,176,845	0.77%	0	Unknown
9. Agricultural Bank of China — China Post Core Growth Stock Securities Investment Fund	Others	19,500,000	0.68%	0	Unknown
10. BOC — E Fund SZSE 100 ETF	Others	19,022,603	0.66%	0	Unknown

Shareholdings of top ten holders of shares not subject to lock-up

Name of shareholders	Number of shares held not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	881,826,620	A shares
2. HKSCC Nominees Limited	523,713,568	H shares
3. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	64,877,422	A shares
4. CITIC Trust Co.,Ltd. — Wealth Management 06	48,495,000	A shares
5. Hunan Nantian (Group) Co., Ltd	31,208,841	A shares
6. China Life Insurance Company Limited — Traditional — General Insurance Products — 005L-CT001 Shen	29,267,981	A shares
7. ICBC — Guangfa Jufeng Stock Fund	24,776,798	A shares
8. China Life Insurance (Group) Company Limited — Traditional — General Insurance Products	22,176,845	A shares
9. Agricultural Bank of China — China Post Core Growth Stock Securities Investment Fund	19,500,000	A shares
10. BOC — E Fund SZSE 100 ETF	19,022,603	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 the rest of the top ten shareholders and the rest of the top ten shareholders 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 rest of the top ten shareholders and the rest of the top ten shareholders not subject to lock-up.

Note: 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.

3.2.2 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	–48,495,000	881,826,620	A shares	0	881,826,620	Nil

Note: On 13 June 2011, Zhongxingxin disposed of 48,495,000 shares in the Company (1.69% of the total share capital of the Company) through the trading system of Shenzhen Stock Exchange during the reporting period. For details please refer to the Company's Announcement on Sell-down by Shareholders dated 13 June 2011.

3.3 Changes in controlling shareholder and de facto controller

□ Applicable √ N/A

During the reporting period, there was no change to the controlling shareholder of the Company. There was no de facto controller of the Company.

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

√ Applicable □ N/A

During the reporting period, the effective shareholdings in the issued share capital of the Company and restricted shares under the Share Incentive Scheme held by the Directors, Supervisors and senior management of the Company at the end of the period were as follows:

No.	Name	Title	Number of A shares held at the beginning of the reporting period (shares)	Increase in the number of shares held during the period	Decrease in the number of shares held during the period	Number of A shares held at the end of the reporting period (shares)	Including: number of restricted shares under share incentive scheme	Reason for the change
Directors of the Company								
1	Hou Weigui	Chairman	989,560	—	—	989,560	—	—
2	Lei Fanpei	Vice Chairman	—	—	—	—	—	—
3	Xie Weiliang	Vice Chairman	27,300	—	—	27,300	12,285	—
4	Wang Zhanchen	Director	—	—	—	—	—	—
5	Zhang Junchao	Director	27,300	—	—	27,300	12,285	—
6	Dong Lianbo	Director	27,300	—	—	27,300	12,285	—
7	Shi Lirong	Director and President	300,425	—	—	300,425	—	—
8	Yin Yimin	Director	527,361	—	—	527,361	—	—
9	He Shiyou	Director and Executive Vice President	287,450	—	—	287,450	—	—

No.	Name	Title	Number of A shares held at the beginning of the reporting period (shares)	Increase in the number of shares held during the period	Decrease in the number of shares held during the period	Number of A shares held at the end of the reporting period (shares)	Including: number of restricted shares under share incentive scheme	Reason for the change
10	Qu Xiaohui	Independent Director	—	—	—	—	—	—
11	Wei Wei	Independent Director	—	—	—	—	—	—
12	Chen Naiwei	Independent Director	—	—	—	—	—	—
13	Tan Zhenhui	Independent Director	—	—	—	—	—	—
14	Timothy Alexander Steinert	Independent Director	—	—	—	—	—	—
Supervisors of the Company								
15	Zhang Taifeng	Chairman of Supervisory Committee	332,187	—	—	332,187	—	—
16	He Xuemei	Supervisor	—	25,289	—	25,289	—	*Note 1*
17	Zhou Huidong	Supervisor	40,131	25,000	—	65,131	18,058	*Note 1*
18	Wang Yan	Supervisor	—	—	—	—	—	—
19	Xu Weiyan	Supervisor	7,666	—	—	7,666	—	—
Senior management of the Company								
20	Wei Zaisheng	Executive Vice President and Chief Financial Officer	322,850	—	—	322,850	—	—
21	Xie Daxiong	Executive Vice President	414,410	1,000	—	415,410	122,850	*Note 1*
22	Tian Wenguo	Executive Vice President	233,316	70,000	—	303,316	122,850	*Note 1*
23	Qiu Weizhao	Executive Vice President	273,000	70,000	—	343,000	122,850	*Note 1*
24	Fang Qingfeng	Executive Vice President	363,750	105,000	—	468,750	184,275	*Note 1*
25	Chen Jie	Senior Vice President	550,485	70,000	—	620,485	122,850	*Note 1*
26	Zhao Xianming	Senior Vice President	393,150	86,709	—	479,859	221,130	*Note 1*
27	Pang Shengqing	Senior Vice President	329,502	105,000	—	434,502	184,275	*Note 1*
28	Zeng Xuezhong	Senior Vice President	368,000	105,000	—	473,000	184,275	*Note 1*
29	Xu Huijun	Senior Vice President	408,121	126,000	—	534,121	221,130	*Note 1*
30	Ye Weimin	Senior Vice President	384,786	45,490	—	430,276	122,850	*Note 1*
31	Ni Qin	Senior Vice President	527,233	64,900	—	592,133	122,850	*Note 1*
32	Wu Zengqi	Senior Vice President	336,375	69,100	—	405,475	184,275	*Note 1*
33	Zhu Jinyun	Senior Vice President	304,450	97,600	—	402,050	171,252	*Note 1*
34	Zhang Renjun	Senior Vice President	—	—	—	—	—	—
35	Feng Jianxiong	Secretary to the Board of Directors	262,500	—	—	262,500	122,850	—
	Total		**8,038,608**	**1,066,088**	**—**	**9,104,696**	**2,265,475**	

Note 1: Certain senior management and Supervisors of the Company acquired A shares of the Company in the secondary market with private funds. For details please refer to the "Announcement on the Purchase of the Company's Shares by the Management of the Company" published by the Company on 27 June 2011.

Note 2: 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.

§5 REPORT OF THE BOARD OF DIRECTORS

5.1 Review of Business in the first half of 2011

Overview of the PRC telecommunications industry in the first half of 2011

During the first half of 2011, the year that marked the beginning of the nation's 12th Five-Year Plan, the three big carriers in domestic market showed varying emphases in their equipment investments, while certain carriers were somewhat slackened in opening tenders for certain equipment, as compared to previous years. For the six months ended 30 June 2011, the PRC telecommunications industry reported revenue from principal operations of RMB474.07 billion, representing a year-on-year growth of 10.1%, according to figures released by the Ministry of Industry and Information Technology in China.

Overview of the global telecommunications industry in the first half of 2011

During the first half of 2011, the global telecommunications industry continued to steer towards positive growth. There were signs that equipment investments were back on a growth track, focused largely on the construction of wireless/wireline broadband networks, while the planning for 3G network deployment was also getting to greater depths, although overall capital expenditure by carriers varied from region to region. A number of countries started to auction their LTE licenses, with the construction of commercial or trial LTE networks taking place in mature markets such as Europe, the U.S. and Japan, etc. The broadband strategies of developed countries had accelerated the progress of wireline broadband network, so as to meet public demand for high-speed bandwidth. As wireless broadband connection was becoming more popular, sales of smart terminals were growing at a much faster rate than ordinary terminals to account for an increasing proportion among all terminal products.

Operating results of the Group for the first half of 2011

The global telecommunications industry experienced a slow recovery in the first half of 2011. Industry competition intensified as ongoing advances were being made in product technology innovation. Leveraging its inherent competitive strengths, the Group secured stable and growing revenue from the domestic market, while gaining solidly in revenue from the international market, where we reported sustained revenue growth in carriers' networks and stronger increment in terminals and telecommunication software systems, services and other products. Nonetheless, gross profit margin and net profit conceded on a year-on-year basis under the Group's strategy to expand market shares in a pro-active manner. Operating revenue of the Group for the first half of 2011 amounted to RMB37.337 billion, representing a year-on-year growth of 21.52%. Net profit decreased 12.33% to RMB769 million. Basic earnings per share amounted to RMB0.27.

1) By market

The domestic market

During the reporting period, the Group reported an operating revenue of RMB16.527 billion from the domestic market, representing a year-on-year growth of 6.83% and accounting for 44.26% of the Group's total operating revenue. Although there was a slowdown in overall investments in the domestic telecommunications industry, the Group ensured growth in operating revenue by improving the competitiveness of its products.

The international market

During the reporting period, the Group reported an operating revenue of RMB20.810 billion from the international market, accounting for 55.74% of its total operating revenue and representing a year-on-year growth of 36.41%. The Group's diligent efforts in international market development came in a variety of ways. While locking up shares in emerging markets, we continued to make large-scale breakthroughs with global mainstream carriers through cooperations with these operators on products of different modes, assuring year-on-year growth in the Group's revenue from international business.

2) By product

The Group registered year-on-year revenue growth of 8.01% for carriers' networks, 43.96% for terminal products and 42.29% for telecommunication software systems, services and other products during the reporting period.

Carriers' networks

During the first half of 2011 under review:

In wireless products, the Group actively participated in LTE tenders in the Asia Pacific, Europe and Latin America and secured contracts for large-scale commercial or trial LTE networks, as well as 2G/3G network capacity expansion and modernisation projects of global mainstream carriers in the Asia Pacific, Eastern Europe, Africa and Latin America, by seizing opportunities presented by the global trend of wireless broadband network construction and network modernisation and reengineering. As a result, the Company market position and presence in the global wireless market has been fortified and optimised.

In connection with wireline products, the competitiveness of the Group's access network products continued to strengthen, with rapid sales growth reported in both the domestic and the overseas markets; Sales of carrying network products experienced a slight setback, reflecting declining domestic sales which more than offset the increase in international sales. We maintained our lead in access network products, notably xPON network construction, as various nations continued to roll on their broadband strategy. Meanwhile, our FTTX products were also making more significant revenue contributions. Regarding carrying network products, our customer base continued to optimise with large-scale sales achieved in emerging markets in the Asia Pacific, South America, the Middle East, India and Africa. Breakthroughs among global mainstream carriers were also being made.

Terminals

During the first half of 2011, the Group sustained rapid growth in the sales of its terminal products, reporting a 43.96% year-on-year growth in sales revenue.

During the reporting period, sales of the Group's terminal products (comprising 3G handsets in various modes and data cards) in the domestic market were gaining pace as the population of domestic 3G users continued to grow. Internationally, the Group sustained strong growth as its terminal products, including the 3G handsets, data cards and netbooks made breakthroughs among global mainstream carriers.

Telecommunication software systems, services and other products

Revenue from telecommunication software systems, services and other products grew by 42.29%, underpinned by stable growth in revenue from video, network terminals and wireless terminals as well as rapid growth for service products.

Difficulties encountered by the Group in its operations during the first half of 2011

During the reporting period, global economic recovery continued at a slackened pace. Competition in the industry was intense, while there were increased conflicts in intellectual property rights.

5.2 Management discussion and analysis prepared in accordance with PRC ASBEs

5.2.1 Breakdown of principal operations by industry and product segments

By industry or product	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
I. By industry						
Manufacturing of communication equipment	37,336,595	26,243,731	29.71%	21.52%	28.35%	(3.74%)
II. By product						
Carriers' networks	20,522,957	13,458,295	34.42%	8.01%	14.32%	(3.62%)
Terminal	11,214,730	9,013,213	19.63%	43.96%	49.70%	(3.08%)
Telecommunication software systems, services and other products	5,598,908	3,772,223	32.63%	42.29%	42.18%	0.06%
Total	**37,336,595**	**26,243,731**	**29.71%**	**21.52%**	**28.35%**	**(3.74%)**

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 RMB1,648,310.

* The above references to connected transactions relate to connected transactions as defined under the securities regulatory provisions of the Listing Rules of Shenzhen Stock Exchange.

5.2.2 Breakdown of operating revenue for the reporting period by geographic region

Unit: RMB in thousands

Region	Operating revenue	Year-on-year Increase/ decrease in operating revenue
The PRC	16,526,771	6.83%
Asia (excluding the PRC)	6,807,562	29.65%
Africa	5,011,605	12.27%
Europe, U.S. and Oceania	8,990,657	62.26%
Total	37,336,595	21.52%

5.3 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 2011**		For the six months ended 30 June 2010	
	Revenue	**As a percentage of operating revenue**	Revenue	As a percentage of operating revenue
Carriers' networks	**20,523.0**	**55.0%**	19,000.3	61.8%
Terminal	**11,214.7**	**30.0%**	7,790.3	25.4%
Telecommunication software systems, services and other products	**5,598.9**	**15.0%**	3,934.8	12.8%
Total	**37,336.6**	**100.00%**	30,725.4	100.00%

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, America and Oceania for the periods indicated:

Unit: RMB in millions

Region	**For the six months ended 30 June 2011**		For the six months ended 30 June 2010	
	Revenue	**As a percentage of operating revenue**	Revenue	As a percentage of operating revenue
The PRC	**16,526.8**	**44.3%**	15,469.9	50.4%
Asia (excluding the PRC)	**6,807.6**	**18.2%**	5,250.7	17.1%
Africa	**5,011.6**	**13.4%**	4,464.0	14.5%
Europe, U.S. and Oceania	**8,990.6**	**24.1%**	5,540.8	18.0%
Total	**37,336.6**	**100.0%**	30,725.4	100.0%

The Group reported RMB37,336.6 million in operating revenue for the first half of 2011, representing a 21.5% growth compared to the same period last year. Operating revenue from domestic sales continued to grow, increasing by 6.83% to RMB16,526.8 million. Analysed by product segment, significant year-on-year revenue growth was reported in terminals and telecommunication software systems, services and other products, whilst year-on-year revenue of carriers' networks reported moderate growth, ensuring a significant increase in the total operating revenue of the Group for the six months ended 2011 over the same period last year.

The mild growth in operating revenue from the Group's carriers' networks segment was mainly attributable to the increase in revenue from international wireless, wireline and optical communication and data communication system products coupled with an increase in domestic wireless and wireline products, set off by the decline in optical communication and data communication system products in the domestic market, which limited the growth of revenue from carriers' networks.

The increase in operating revenue from the Group's terminal product segment was driven mainly by the increase in sales revenue for GSM handsets, CDMA handsets, 3G handsets and data cards in both the international and domestic markets.

The significant increase in operating revenue from the Group's telecommunication software systems, services and other products was mainly driven by the growth in revenue of international video, network terminals, international and domestic service products and other products.

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 2011**		For the six months ended 30 June 2010	
	Cost of sales	**As a percentage of segment revenue**	Cost of sales	As a percentage of segment revenue
Carriers' networks	**14,348.7**	**69.9%**	12,094.5	63.7%
Terminal	**8,989.7**	**80.2%**	6,039.9	77.5%
Telecommunication software systems, services and other products	**3,885.8**	**69.4%**	2,740.1	69.6%
Total	**27,224.2**	**72.9%**	20,874.5	67.9%

Unit: RMB in millions

Product segment	**For the six months ended 30 June 2011**		For the six months ended 30 June 2010	
	Gross profit	**Gross profit margin**	Gross profit	Gross profit margin
Carriers' networks	**6,174.3**	**30.1%**	6,905.8	36.3%
Terminal	**2,225. 0**	**19.8%**	1,750.4	22.5%
Telecommunication software systems, services and other products	**1,713.1**	**30.6%**	1,194.7	30.4%
Total	**10,112.4**	**27.1%**	9,850.9	32.1%

Cost of sales of the Group for the first half of 2011 increased by 30.4% as compared to same period last year to RMB27,224.2 million. The Group's overall gross profit margin for the first half of the year of 27.1% was 5.0 percentage points lower than the same period last year, mainly as a result of lower gross profit margin of carrier network and terminal products.

Cost of sales for the Group's carriers' networks for the first half of the year amounted to RMB14,348.7 million, 18.6% higher as compared to the same period last year. The gross profit margin for carriers' networks was 30.1% versus 36.3% for the same period last year. The decrease in the gross profit margin for carriers' networks was mainly due to a lower gross profit margin for international wireline switch and access systems as well as wireless communication systems.

Cost of sales for the Group's terminal products for the first half of the year amounted to RMB8,989.7 million, increasing by 48.8% compared to the same period last year. Gross profit margin for the Group's terminal segment was 19.8%, versus 22.5% for the same period last year, which was attributable mainly to lower gross profit margin for various domestic terminal products and a decreasing gross profit margin for international CDMA handsets, 3G handsets and data cards.

Cost of sales for the Group's telecommunication software systems, services and other products for the first half of the year amounted to RMB3,885.8 million, increasing by 41.8% compared to the same period last year. The gross profit margin for telecommunication software systems, services and other products was 30.6%, compared to 30.4% for the same period last year, primarily resulting from higher gross profit margins in the domestic market but lower for the international market for video and network terminals, fixed terminals and service products.

Other income and gains

Other income and gains of the Group for the first half of 2011 amounted to RMB2,116.6 million, representing a 145.9% growth compared to RMB860.8 million for the first half of 2010, which was primarily attributable to the disposal of the equity interests in Nationz Technologies by the Company during the first half of 2011 and an increase in investment gains recognised as a result of the reclassification of outstanding unsold shares in Nationz Technologies from long-term equity investments to financial assets held for trading for accounting purposes.

Research and deferred development costs

The Group's research and deferred development costs for the first half of 2011 increased by 14.7% to RMB3,664.5 million from RMB3,195.3 million for the first half of 2010. The increase in research and deferred development costs was attributable mainly to increased investments in the research and development of GSM/UMTS wireless systems, service products, core networks, etc. Our research and deferred development costs fell 0.6 percentage point from 10.4% for the first half of 2010 to 9.8% as a percentage of operating revenue.

Selling and distribution costs

The Group's selling and distribution costs the for the first half of 2011 increased by 22.6% to RMB4,983.6 million from RMB4,066.0 million for the first half of 2010, and increased by 0.1 percentage points from 13.2% to 13.3% as a percentage of operating revenue. The increase was attributable mainly to increased investments in the Company's overseas market development.

Administrative expenses

Administrative expenses of the Group for the first half of 2011 increased by 10.3% to RMB1,260.4 million, as compared to RMB1,142.6 million for the first half of 2010, and decreased by 0.3 percentage points from 3.7% to 3.4% as a percentage of operating revenue, mainly as a result of strengthened cost control by the Company.

Other expenses

Other expenses of the Group for the first half of 2011 amounted to RMB547.4 million, a slight increase as compared to RMB543.3 million for the first half of 2010.

Profit from operating activities

The Group's profit from operating activities for the first half of 2011 slightly increased by 0.5% to RMB1,773.0 million, as compared to RMB1,764.6 million for first half of 2010. The operating profit margin of 4.7% was 1% lower than the same period last year, primarily due to a decline in gross profit margin in the Company's products.

Finance costs

Finance costs of the Group for the first half of 2011 amounted to RMB509.7 million, increasing by 29.4% from RMB393.9 million for the first half of 2010 mainly due to an increase in bank loan interest rate.

Tax

The Group's income tax expense for the first half of 2011 was RMB436.4 million, which was 9.2% higher as compared to RMB399.6 million for the first half of 2010, reflecting higher profit from certain subsidiaries of the Group that were subject to higher tax rates, which increased the effective tax to 34.3% for the first half of 2011 from 28.7% for the first half of 2010.

Profit attributable to minority interests

The Group's minority interests for the first half of 2011 amounted to RMB67.1 million, which was 42.1% lower as compared to RMB115.8 million for the first half of 2010. Minority interests decreased from 11.7% for the first half of 2010 to 8.0% for the first half of 2011 as a percentage of profit before minority interests, reflecting mainly lower profit at subsidiaries with a higher level of minority interests.

Other comprehensive income

Other comprehensive income of the Group for the first half of 2011 increased by 98.3% to RMB–2.3 million, compared to RMB–135.1 million for the first half of 2010. The change in other comprehensive income was mainly attributable to reduced losses arising from the translation of financial statements denominated in foreign currencies.

Debt-equity ratio and the basis of calculation

The debt-equity ratio of the Group for the first half of 2011 was 8.0 percentage points higher at 46.9% compared to 38.9% for the first half of 2010, which mainly reflected increased bank loans by the Company to fund working capitals.

Cash flow data

Unit: RMB in millions

	For the six months ended 30 June 2011	For the six months ended 30 June 2010
Net cash outflow from operating activities	**(6,220.5)**	(4,910.4)
Net cash outflow from investing activities	**(2,183.2)**	(1,117.5)
Net cash inflow from financing activities	**8,434.4**	4,253.6
Net increase/(decrease) in cash and cash equivalents	**30.7**	(1,774.3)
Cash and cash equivalents at the end of the period	**14,867.5**	12,285.5

Operating activities

The Group had a net cash outflow from operating activities of RMB6,220.5 million for the first half of 2011 compared to RMB4,910.4 million for the first half of 2010, reflecting year-on-year increase of cash outflow for purchases and the provision of services by RMB3,518.9 million mainly as a result of expanded sales, increase of cash outflow for payments made to employees by RMB1,056.1 million, decrease of tax payment by RMB444.0 million and increase of other cash paid in connection with operating activities by RMB918.9 million, coupled with a mild decrease of cash inflow for sales and the provision of services as compared with the same period last year and the increase of cash inflow from tax rebates by approximately RMB685.2 million.

Investing activities

The net cash outflow from the Group's investment activities for the first half of 2011 was RMB2,183.2 million compared to a net cash outflow of RMB1,117.5 million for the first half of 2010, attributable mainly to cash paid for external investments by Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise (深圳市中和春生壹號股權投資基金合夥企業) amounting to RMB716.5 million, which had been included in the Group's consolidated financial statements.

Financing activities

The Group's net cash inflow from financing activities for the first half of 2011 was RMB8,434.4 million, compared to RMB4,253.6 million for the first half of 2010, reflecting mainly cash proceeds of RMB8,427.7 million received from the Company's borrowings.

Disclosure required under the Hong Kong Stock Exchange Listing Rules

In accordance 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 from the information disclosed in the 2010 Annual Report of the Company in relation to those matters set out in paragraph 32 of Appendix 16.

5.4 Reasons for substantial change in principal business and its structure

□ Applicable √ N/A

5.5 Reasons for substantial change in the profitability (gross profit margin) of principal business compared to the same period last year

□ Applicable √ N/A

5.6 Analysis of reasons for substantial changes in the breakdown of profit as compared to the same period last year

√ Applicable □ N/A

Item	**As a percentage of total profit for the six months ended 30 June 2011**	**As a percentage of total profit for the six months ended 30 June 2010**	**Change (percentage points)**
Operating profit	**53.72%**	48.38%	5.34%
Expenses for the period	**797.86%**	652.39%	145.47%
Investment gains	**91.56%**	1.72%	89.84%
Non-operating income and expenses, net	**46.28%**	51.62%	(5.34%)

Note: The significant increase in expenses as a percentage of total profit for the reporting period was mainly attributable to the expansion in scale by the Company, increased investments in marketing and research and development, and the significant increase in investment gains as a percentage of total profit for the reporting period was mainly attributable to the investment gains derived from the disposal of equity interests in Nationz Technologies and the transfer of gains from fair-value change of certain derivative investments upon maturity to investment gains.

5.7 The consolidated gearing ratio of the Group for the first half of 2011 was 74.32%, increasing by 3.98 percentage points as compared to the end of last year mainly attributable to the combined effect of the increase in short-term loans to meet the Company's working capital requirements, the increase in amounts payable to suppliers in line with the expansion in business scale and the increase in dividend declared but not yet paid for the period. The interest-bearing debt ratio of the Group was 22.65%, which was 6.75 percentage points higher as compared to the end of last year mainly attributable to an increase in bank borrowings to satisfy the capital requirement of the Company.

5.8 Updates on use of proceeds

5.8.1 Use of proceeds

1. Use of proceeds during the reporting period

   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 National 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, the details of which have been set out in the 2009 Annual Report of the Company and and the "Verification report on the Deposit and Application in 2009 of Issue Proceeds of ZTE Corporation" published on the same date.

   The exercise period for the "ZXC1" Warrants ended on 12 February 2010 and a total of 23,348,590 "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 relevant announcement published by the Company on 24 March 2010.

2. Significant investments using funds other than issue proceeds

1) Establishment of the Group Finance Company

   In order to strengthen the centralised treasury management of ZTE Group and enhance the efficiency of its fund application, it was approved at the Eleventh Meeting of the Fifth Session of the Board of Directors of the Company and the Third Extraordinary General Meeting for 2010 of the Company that the Company would establish ZTE Group Finance Co., Ltd. with a capital contribution of RMB1,000 million (including USD20 million).

   On 9 February 2011, the China Banking Regulatory Commission ("CBRC") issued Yin Jian Fu [2011] No. 41 Document "Approval Reply of CBRC Concerning the Establishment of A Group Finance Company by ZTE Corporation" (銀監覆[2011]41號文件《中國銀監會關於中興通訊股份有限公司籌建企業集團財務公司的批覆》), granting approval to the establishment of a group finance company by the Company. On 11 July 2011, CBRC issued the "Approval Reply of CBRC concerning the Commencement of Business of ZTE Group Finance Co., Ltd" (Yin Jian Fu [2011] No. 236) (《中國銀監會關於中興通訊集團財務有限公司開業的批覆》銀監覆[2011]236號), granting approval to the commencement of business of ZTE Group Finance Co., Ltd.

For details, please refer to the "Announcement of Resolutions of the Eleventh Meeting of the Fifth Session of the Board of Directors", "Announcement of External Investment — the Establishment of ZTE Finance Co., Ltd", "Announcement in respect of the Resolutions of the Third Extraordinary General Meeting of 2010", "Announcement on Approval Received for the Establishment of a Group Finance Company" and "Announcement on the Approval of Business Commencement of ZTE Group Finance Co., Ltd." dated 12 October 2010, 30 November 2010, 15 February 2011 and 13 July 2011, respectively.

2) Investment in a Research and development ("R&D") base in Yuhuatai, Nanjing

To provide support for its future business development, the Company entered into an investment agreement with Nanjing Yuhuatai District People's Government in respect of the proposed investment in and construction of the "ZTE (Nanjing) Area No. 3 R&D Base" project in Yuhuatai District, Nanjing. The investment was considered and passed at the Sixteenth Meeting of the Fifth Session of the Board of Directors of the Company and the 2010 Annual General Meeting of the Company. Total investment in the project is estimated at RMB16 billion (comprising investment in infrastructure of RMB6 billion). The construction period of the Project is expected to be 10 years. The Company will fund investments in the Project with its internal resources.

For details, please refer to the "Announcement of External Investment", "Announcement of Resolutions of the Sixteenth Meeting of the Fifth Session of the Board of Directors" and "Announcement in respect of Resolutions of the 2010 General Meeting" of the Company dated 17 March 2011 and 17 May 2011, respectively.

5.8.2 Changes to projects committed

□ Applicable √ N/A

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

□ Applicable √ N/A

5.10 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 profitability compared to the same period last year

□ Applicable √ N/A

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

□ Applicable √ N/A

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

□ Applicable √ N/A

5.13 Business outlook and risk exposure for the second half of 2011

5.13.1 Business Outlook for the Second Half of 2011

Looking to the second half of 2011, the Company will be confronted with a complex market environment underpinned by opportunities as well as challenges. The rapid development of the mobile Internet will drive large-scale construction of the next-generation LTE mobile broadband network, and supplementary broadband construction is also expected to begin. In addition, the demand for better network quality will drive the construction of new 2G/3G networks and revamping of existing ones to modernised standards. As the nation continued to advance its broadband strategy, the wireline access market will embrace a new cycle of time window construction, while ICT industries such as the Internet of Things, cloud computing and mobile Internet, etc are on the brink of a new stage of transformation.

In the second half of 2011, domestic carriers are expected to speed up their capital expenditure; In the international market, mobile broadband construction and the development of smart terminals will remain some of the most sought after segments. The Company will seek to maintain a positive balance between scale and profit with the fundamental aim of sustaining stable growth in business scale. We will enhance our efforts in implementing our transformation into an operating business entity, strengthen control over expenses and strive to improve our operating efficiency.

5.13.2 Risk Exposure

1. *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 fluctuations in the loan interest rates determined by the State and the profitability of the Group will be affected as a result.

2. *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. With a strong emphasis on the research of exchange risk management policies, models and strategies, the Group has adopted natural hedging to manage its foreign exchange risks and facilitated the matching of its assets and liabilities denominated in foreign currencies through the choice of different currencies for various businesses and spot currency trading.

3. *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 currently supported by over 20,000 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.

4. *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.

5. *Country risk*

Under the complicated global economic and financial 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.

§6 MATERIAL MATTERS

6.1 Acquisition, Sale of Assets and Asset Reorganisation

6.1.1 Acquisition of Assets

□ Applicable √ N/A

6.1.2 Sale of Assets

□ Applicable √ N/A

6.1.3 Progress of any asset reorganisation or acquisition or sale of assets and its effects on the operating results and financial position for the reporting period subsequent to the publication or announcement of the relevant asset reorganisation report or acquisition or sale of assets

□ Applicable √ N/A

6.2 Guarantees

√ Applicable □ N/A

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. Note 1	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)	RMB69,414,800	Total amount of third-party guarantee actually incurred as at the end the reporting period (A4)	RMB69,414,800

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 Note 1	23 July 2007, 200735	USD3 million	28 June 2007	USD3 million	Joint liability assurance	6.6 years	No	No
Congo-Chine Telecom S.A.R.L. Note 2	17 August 2007, 200738	USD105 million	8 November 2007	USD8.405 million	Guarantee by pledge	7.5 years	No	No
Closed Joint-Stock Company CJSC TK Mobile Note 3	12 May 2009, 200917	USD70.60 million	N/A	—	Guarantee by pledge	—	No	No
PT. ZTE Indonesia Note 3	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

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)
PT. ZTE Indonesia Note 3	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 Note 4	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	No	No
ZTE Telecom India Private Limited Note 4	13 November 2009, 200945	USD3 million	31 December 2009	INR6,848,100	Joint liability assurance	Agreement for Infrastructure Network Construction” is completed	No	No
ZTE (H.K.) Limited Note 5	9 April 2011, 201112	USD900 million	8 July 2011	USD900 million	Joint liability assurance	From the date on which the Guarantee takes effect till the date falling 60 months after the date of the Facility Agreement	No	No

Total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1)	USD900 million	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)	RMB7,485,052,600	Total amount of guarantee on behalf of subsidiaries actually incurred as at the end the reporting period (B4)	RMB560,164,700

Total amount guaranteed by the Company (sum of the two categories aforesaid)

Total amount of guarantee approved during the reporting period (A1+B1)	USD900 million	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) Note 1	RMB7,535,052,600	Total amount of guarantee actually incurred as at the end the reporting period (A4+B4) Note 1	RMB610,164,700

Total guaranteed amount as a percentage of net assets of the Company (A4+B4)	2.65%
Including:	
Amounts of guarantees provided on behalf of shareholders, effective 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)	RMB 560,164,700
Amount of total guarantee exceeding 50% of net assets (E)	0
Aggregate amount of the three guarantee amounts stated above (C+D+E)	RMB 560,164,700
Statement on potential joint liability involved in outstanding guarantees	N/A

Note 1: Guarantee provided by ZTE H.K., 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 H.K. is guaranteed by the Company. In effect of the aforesaid two guarantees, ZTE is the ultimate guarantor and 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 balance of actually incurred as at the end the reporting period.

Note 2: The Company provided a guarantee in respect of a bank loan extended to subsidiary Congo-Chine Telecom S.A.R.L. by pledging its 51% equity interests in Congo-Chine Telecom S.A.R.L. As the gearing ratio of Congo- Chine exceeded 70%, the said 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.

Note 3: 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 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 4: 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 million and application be made by the

Indian local bank 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 5: On 8 July 2011, ZTE (H.K.), a wholly-owned subsidiary of the Company, entered into a USD900 million syndicate loan agreement with 10 international banks including Bank of China (Hong Kong) Limited ("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 (H.K.). 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 (H.K.) 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 6: Guaranteed amounts denominated in Indian Rupee (INR) are translated at the exchange rate of 1 Indian Rupee to RMB0.1440 (being the book exchange rate of the Company on 30 June 2011). Guaranteed amounts denominated in US dollars are translated at the exchange rate of USD1 to RMB6.4716 (being the book exchange of the Company on 30 June 2011).

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.

6.3 Non-recurrent creditor's rights and debts with connected parties

□ Applicable √ N/A

6.4 Material Litigation or Arbitration

√ Applicable □ N/A

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. An administrative penalty notice had been served upon Zhongxing Telecom Pakistan (Pvt) Ltd, a subsidiary of the Company (the "Pakistanis Subsidiary"), by the Rawalpindi Collectorate of Customs in respect of a claim of additional custom duties of approximately RMB23.9 million for the misdeclaration of the imported goods by the Pakistanis Subsidiary and a fine of approximately RMB324 million.

   Following negotiations between the Group and the Rawalpindi Collectorate of Customs, the Rawalpindi Collectorate agreed in June 2007 that the fine might be exempted if the Pakistanis Subsidiary made a remedial tax payment of PKR177 million before 30 June 2007. Such payment had been made by the Pakistanis Subsidiary before 30 June 2007. Subsequently, the Rawalpindi Collectorate of Customs issued a notice to the Pakistanis Subsidiary demanding the payment of an addition tax amount of approximately PKR62 million (approximately RMB4,675,000). The Pakistanis Subsidiary appealed to the Customs Appellate Court against such demand.

On 15 March 2011, Customs Appellate Court of Islamabad ruled that the Pakistanis Subsidiary should not be required to pay the tax amount in dispute of PKR62 million (approximately RMB4,675,000). Currently the judgement has taken effect.

2. In August 2010, a U.S. company filed a lawsuit with a district court in California against the Company and its subsidiaries, claiming that the Company and its subsidiaries had infringed the claimant's copyright by downloading and using software developed by the claimant without permission and demanding the Company and its subsidiaries to stop such infringement and compensate the claimant's losses, although the amount of such compensation demanded was not specified in the claim by such U.S. company. The Company has appointed a U.S. law firm to represent it in the case and has filed a response to the court.

   On 13 May 2011, the U.S. company applied to the Californian court for summary judgement in respect of the case. On 14 June 2011, the Californian court issued a summary judgement which ruled that the Company had violated provisions on applicable assessment periods contained in the software click license agreement between the Company and such U.S. company and had therefore breached the agreement.

   On 5 August 2011, the U.S. company reached a settlement with the Company. The Company agreed to pay a total of USD9.75 million in settlement and licensing fees to the U.S. company over a period of three years, in consideration of the US company granting the Company the right to use all its commercial software in the next three years. On 5 August 2011, the court ruled to repeal the case in accordance with the law.

3. A lawsuit on breach of agreement and infringement was instituted against the Company and its subsidiary ZTE (USA), Inc. ("ZTE (USA)") at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE (USA) had violated a confidential agreement between Universal Telephone Exchange, Inc. (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's attorney filed a written response to the court generally denying UTE's charges against the Company and ZTE (USA). Meanwhile, the Company's attorney also disputed the jurisdiction of the said U.S. court over the Company. On 8 February 2011, UTE filed a Discovery Request in respect of the Company and ZTE (USA) in response to the dissent on jurisdiction raised by the Company, and the court gave permission to UTE to require the Company to comply with investigations relating to the issue of legal jurisdiction.

   Upon due enquiries, it came to the knowledge of our attorney that UTE's business license in Texas was terminated on 21 May 2010. On this basis, our attorney disputed the Discovery Request filed by UTE and applied to the court for the lawsuit to be dismissed on the grounds that UTE's business license in Texas was terminated on 21 May 2010 and, therefore, according to Texan laws, UTE had no right to institute lawsuits in Texas or to require the Company to disclose any relevant information. The aforesaid legal documents were served on UTE on 21 March 2011. On 29 March 2011, UTE filed a written response to the dissent of ZTE (USA), pleading the court to reject ZTE (USA)'s dissent and to rule in favour of UTE's rights to institute relevant legal actions. The case is currently pending court trial.

The Company will publish timely announcements to disclose any substantial progress of the aforesaid arbitration and litigation.

4. On 7 April 2011, the Company published the "Announcement on Litigation" in relation to the lawsuit filed by Telefonaktiebolaget LM Ericsson (publ) ("Ericsson") against ZTE (UK) LIMITED ("ZTE (UK) "), a wholly-owned subsidiary of the Company, in respect of the alleged infringement on Ericsson's patent technologies by several handset models of ZTE (UK). A demand was made on ZTE (UK) to discontinue such act of infringement and compensate for Ericsson's losses, although no specific amount of compensation was raised by Ericsson in the statement of claim. The Company submitted a response on 20 June 2011 and the case is currently pending trial to be scheduled by the court.

   On 1 April 2011, Ericsson applied to the Court of Rome for provisional injunction procedures against ZTE Italy S.r.l. ("ZTE Italy"), the subsidiary of ZTE in Italy, requesting the court to make a unilateral ruling. Such request was rejected by the court, which ordered Ericsson to serve a claim on ZTE Italy. ZTE Italy has submitted its defense to the court, requesting the court to reject the litigation claim of the claimant. As at the end of the reporting period, the ruling of the court had not been officially served upon the two parties.

   On 14 April 2011 and 23 May 2011, Ericsson filed lawsuits against ZTE Deutschland GmbH ("ZTE Deutschland"), a wholly-owned subsidiary of the Company, with the district court of Dusseldorf and the district court of Mannheim in Germany, respectively, alleging infringement of Ericsson's patent technologies and demanding ZTE Deutschland to discontinue such act of infringement and compensate for Ericsson's losses. The local courts have initially estimated the amount in dispute in this case at EUR10.80 million and EUR2.275 million, respectively. ZTE Deutschland is currently preparing for its defense.

   Based on the legal opinion furnished by the legal counsel engaged by the Company and the existing judgements and current progress of the case, it is difficult to ascertain the final outcome of this case at the present stage. The Directors are of the view that the aforesaid case will not have any material and adverse impact on the financial conditions and results of operation of the Group for the current period.

5. 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 first hearing of the case has been scheduled for 12 October 2011, and the Company is required to submit a brief defense by 10 October 2011. We are currently in active preparation for the defense. 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.

On 9 May 2011, 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, which order had been forwarded to the Company by Huawei's attorney. For details please refer to the "Announcement on Litigation" of the Company dated 12 May 2011. This 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. Currently, ZTE Deutschland is preparing for its defense.

On 13 May 2011, Huawei filed a statement of claim with the court of Dusseldorf, Germany against ZTE Deutschland, a wholly-owned subsidiary of the Company, and the Company for infringement of its patent rights. The amount in dispute for this case was estimated by Huawei at EUR1 million. ZTE Deutschland is currently preparing for its defense, which has been scheduled for 30 November 2011.

6. 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 existed in the works performed by the Company and demanding a total compensation amount of USD23.35 million from the Company, comprising USD22.25 million as reimbursement of the cost of network reconstruction and USD1.10 million as the cost for supervising and managing construction work quality of the entire network. The legal counsel engaged by the Company has submitted a defense in a timely manner to deny all allegations made by the carrier. Based on the legal opinion furnished by the legal counsel engaged by the Company, the Directors are of the view that the aforesaid case will not have any material and adverse impact on the financial conditions and results of operation of the Group for the current period.

7. On 29 July 2011, the Company and ZTE USA, the Company's subsidiary in the United States, received a statement of claim filed by a certain U.S. company, simultaneously with the International Trade Commission (ITC) and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and its US subsidiary of infringement upon its 3G patent rights. Defendants in this case included other companies. In the ITC case, This U.S. company demanded the issue of a permanent exclusion order and injunction that would prevent our terminal products 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 will vigorously defend the case by adopting effective measures. Timely announcements will be made to report any substantial progress of the litigation.

6.5 Other significant events and analysis of their impact and solutions

√ Applicable □ N/A

6.5.1 Investment in securities

√ Applicable □ N/A

1. Investment in securities by the Company at the end of the reporting period:

Unit: RMB 10 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	2,025	3,672	96,904	100%	61,429
Other investment in securities held in the period			—	—	—	—	—
Profit and loss from sales of investment in securities in the reporting period			—	—	—	—	29,158
Total			**2,025**	**3,672**	**96,904**	**100%**	**90,587**
Session of the Board approving investment in securities, announcement date and number					Not applicable		
Session of the Board approving investment in securities, announcement date and number					Not applicable		

2. Details in investment in securities

Nationz Technologies, the company with our equity investment, issued its shares under initial public offering 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.

From 24 May 2011 to 24 June 2011, the Company disposed of a total of 17, 680,000 shares in Nationz Technologies. As at the end of the reporting period, the Company currently holds 36,720,000 shares in Nationz Technologies (accounting for 13.50% of the total share capital of Nationz Technologies), all of which are 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 financial assets held for trading for accounting purposes.

For details, please refer to the relevant announcements published by the Company on 27 April, 17 May, 30 May, 14 June, 16 June and 23 June 2011, respectively.

6.5.2 Equity interests in other listed companies

□ Applicable √ N/A

6.5.3 Appropriations of non-operating funds by the majority shareholder and its subsidiaries and repayment status

□ Applicable √ N/A

6.5.4 Sell-down shareholders holding more than 30% of the shares in the Company during the reporting period

Zhongxingxin, the controlling shareholder of the Company, sold 48,495,000 A shares in the Company (representing 1.69% of the total share capital of the Company) on 13 June 2011 via the securities trading system of Shenzhen Stock Exchange. Following the sell-down, Zhongxingxin was interested in 881,826,620 shares in the Company, accounting for 30.76% of the total share capital of the Company. For details, please refer to the "Announcement on Sell-down by Shareholders" published by the Company on 13 June 2011.

Zhongxingxin has undertaken that any share disposal by it via the securities trading system during the consecutive six-month period starting from the date of the aforesaid sell-down will be no more than 5% of the total number of shares of the Company. Throughout the reporting period, Zhongxingxin had honoured its undertaking.

6.5.5 Performance of Undertaking by the Company, shareholders and de facto controllers

√ Applicable □ N/A

On 13 June 2011, Zhongxingxin, the controlling shareholder of the Company, disposed of shares in the Company through the trading system of Shenzhen Stock Exchange. For details of the undertaking of Zhongxingxin in respect of its plan of sell down of shares and its performance, please refer to the paragraph headed "6.5.4 Sell-down shareholders holding more than 30% of the shares in the Company during the reporting period" under this "Material Matters" section.

6.5.6 Profit distribution proposal and proposal for share capital increase by way of transfer from reserves by the Board of Directors

□ Applicable √ N/A

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 2011.

6.5.7 Progress of the Phase I Share Incentive Scheme of the Company during the reporting period

At the Twentieth Meeting of the Fifth Session of the Board of Directors of the Company held on 8 July 2011, the "Resolution on the Third Unlocking of Subject Shares under the First Award of the Phase I Share Incentive Scheme" was considered and passed, which confirmed that the conditions for the Third Unlocking of the Subject Shares under the First Award of the Company had been fulfilled and that 3,199 Scheme Participants under the First Award had satisfied conditions for the Third Unlocking of Subject Shares under the Phase I Share Incentive Scheme, and proposed to unlock a total of 60,532,063 shares. For details, please refer to the "Announcement of Resolutions of the Twentieth Meeting of the Fifth Session of the Board of Directors" published by the Company on 8 July 2011.

On 19 July 2011, the Company received a "Reply Slip in Acknowledgment of the Application for Unlocking of Shares under Share Incentive Schemes" (《股權激勵股份解除鎖定申請受理回執》) issued by China Securities Depository & Clearing Corporation Limited, Shenzhen Branch. The Third unlocking of the Subject Shares in the First Award under the Phase I Share Incentive Scheme was completed, with a total of 60,532,063 Subject Shares being unlocked, accounting for 1.76% of the total share capital of the Company. The date of listing and circulation of Subject Shares subsequent to the release of restrictions was 21 July 2011 (Thursday). For details please refer to the "Announcement of the Completion of the Third Unlocking of Subject Shares under the First Award of the Phase I Share Incentive Scheme" published by the Company on 19 July 2011.

The impact of the Phase I Share Incentive Scheme of the Company on the Company's financial conditions and operating results for the reporting period and future periods is discussed in further detail in Note VII to the financial statements prepared under PRC ASBEs.

6.5.8 Execution of syndicate load agreement

With a view to further optimising the long-term and short-term debt structure the Company and the subsidiaries included in its consolidated financial statements, minimising its exposure to assets and liabilities denominated in foreign currencies and meeting additional working capital requirements of the Company's medium/long-term development at appropriate finance costs, the Company proposes to seek medium/long-term debt financing with ZTE (H.K.), a wholly-owned subsidiary of the Company, as the principal.

On 8 July 2011, ZTE (H.K.) (as borrower) entered into a USD900 million syndicate loan agreement with 10 international banks including BOCHK (as mandated leading arranger). In view of the current financial conditions and credit rating of ZTE (H.K.), the Company will provide guarantee in relation to the aforesaid debt financing of ZTE (H.K.), in order to secure debt financing at favourable costs. The Company (as guarantor) entered into a guarantee agreement with BOCHK on 8 July 2011 to provide guarantee in favour of the loan syndicate to assure proper fulfillment of payments and all duties of ZTE (H.K.) under the syndicate loan agreement. In addition, to avoid interest rate risks associated with the aforesaid debt financing, ZTE (H.K.) proposed to carry out an interest rate swap with a nominal amount of not more than USD900 million at an appropriate timing. The aforesaid matters are approved by the Seventeenth Meeting of the Fifth Session of the Board of Directors and the 2010 Annual General Meeting of the Company. For details, please refer to the relevant announcements of the Company dated 8 April 2011, 17 May and 8 July 2011, respectively.

6.5.9 *Other breakdown items in comprehensive income*

Unit: RMB in thousands

Item	**Six months ended 30 June 2011**	Six months ended 30 June 2010
Foreign currency translation difference	**–2,303**	–135,085

6.6 Reception of investors and analysts, communications and press interviews of the Company during the reporting period

Nature	Location	Date	Mode	Audience received	Contents of discussion	Materials furnished
Presentation of the Company	Hong Kong	March 2011	2010 annual results presentation	Analysts and investors	2010 annual report	Published announcements and regular reports
	Shenzhen	March 2011	Teleconference	Analysts and investors	2010 annual report	Published announcements and regular reports
	Shenzhen	April 2011	Teleconference	Analysts and investors	2011 first quarterly report	Published announcements and regular reports
	Shenzhen	May 2011	Analysts' Forum	Analysts	Day-to-day operations of the Company	Published announcements and regular reports
External meetings	Shanghai	January 2011	UBS investors' meeting	Customers of UBS	Day-to-day operations of the Company	Published announcements and regular reports
	Beijing	January 2011	Deutsche Bank investors' meeting	Customers of Deutsche Bank	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	March 2011	Orient Securities investors' meeting	Customers of Orient Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	April 2011	China Securities investors' meeting	Customers of China Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	May 2011	Morgan Stanley investors' meeting	Customers of Morgan Stanley	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	May 2011	Nomura Securities investors' meeting	Customers of Nomura Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Sanya	June 2011	Sinolink Securities investors' meeting	Customers of Sinolink	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	June 2011	Everbright Securities investors' meeting	Customers of Everbright Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	June 2011	CICC investors' meeting	Customers of CICC	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	June 2011	Haitong Securities investors' meeting	Customers of Haitong Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	June 2011	Essence Securities interim strategy meeting	Customers of Essence Securities	Day-to-day operations of the Company	Published announcements and regular reports

Shenzhen	June 2011	Orient Securities investors' meeting	Customers of Orient Securities	Day-to-day operations of the Company	Published announcements and regular reports
Shenzhen	June 2011	Galaxy Securities investors' meeting	Customers of Galaxy Securities	Day-to-day operations of the Company	Published announcements and regular reports
Chongqing	June 2011	Changjiang Securities annual strategy meeting	Customers of Changjiang Securities	Day-to-day operations of the Company	Published announcements and regular reports

Nature	**Location**	**Date**	**Mode**	**Audience received**	**Contents of discussion**	**Materials furnished**
				Overseas investors		
Company visits by analysts	Company	First half of 2011	Verbal	Samsung Securities, Mitsui Sumitomo, Lansdowne, Alliance Bernstein, F&C Asset Management, Mitsubishi USA, UBS Asset Management, Mirae Asset, First State Investment Management, Fortress Investment Group, Cathay Life, Matrix Group, AVIVA, UOB, UBS, AMP Capital, JP Morgan Asset Management, ASPOMA Asset Management, JP Morgan, Barclays Capital, Ticonderoga Securities, Cavalry, Sumitomo Mitsui AM Co Ltd, Nissay Asset Management (Tokyo), BNP, CLSA, Taurus associates, Bluepool Capital, Mizuho Securities, AMERICAN CENTURY, Sompo Japan, Invesco Perpetual, Mondrian Investment Partners Limited, Pelargos Capital B.V., Nomura AM, Zeal Asset Management, PJ, Putnam, Samsung Asset	Day-to-day operations of the Company	Published announcements and regular reports
				Domestic investors		
	Company	First half of 2011	Verbal	CITIC Securities, Chongyang Investment, China Universal Asset Management, Yinhua Fund, Great Wall Fund, UBS SDIC, New China Fund, Lombarda China Fund, China Post Fund, Morgan Stanley Huaxin Funds, China Merchants Fund, United Securities, Nikko Assets, Southern Fund, Shenyin & Wanguo, Guotai Jun'an, Everbright Securities, Invesco Great Wall, Galaxy Securities, Jiashi Funds, Changsheng Fund, CICC, Hua Chuang Securities, Minsheng Securities, China Jianyin Investment Securities, Taikang Assets, Dacheng Fund, AVIC Securities, Guosen Securities, Manulife Teda Fund, 上海慶華投資發展, Greenwoods Asset Management, Alpha Investment, Boshi Fund, 上海新永溢, Hua An Fund, Solar Insurance Group, First Capital, American International Assurance, BOCI, 建信集團, 新思哲投資, 尚誠投資, Guangfa Fund, Dongwu Investment Fund, 華西資產, Bao Ying Fund, Everbright Pramerica Fund, Changjiang Pension Insurance, Minsheng Royal Fund, Rongtong Fund, Prime Capital Management, Elegant Investment	Day-to-day operations of the Company	Published announcements and regular reports

6.7 Implementation of the Code on Corporate Governance Practices and other matters

6.7.1 Compliance with the Code on Corporate Governance Practices

The Group 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 throughout the reporting period.

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 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 regarding 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 2011.

§7 FINANCIAL REPORT

7.1 Audit opinion

√ Unaudited □ Audited

7.2 Financial statements

7.2.1 Financial statements prepared under PRC ASBEs (unaudited) (Please see Appendix I)

7.2.2 Financial statements prepared under HKFRSs (unaudited) (Please see Appendix II)

7.3 Notes to Financial Statements

7.3.1 Details, causes and impact of changes in accounting policies or accounting estimates or corrections of accounting errors, if any

□ Applicable √ N/A

7.3.2 Details, causes and impact of significant changes in the scope of consolidated financial statements, if any

□ Applicable √ N/A

7.3.3 Explanatory notes on matters in relation to which a qualified auditors' report has been furnished, if any

□ Applicable √ N/A

By Order of the Board
Hou Weigui
Chairman

Shenzhen, PRC

30 August 2011

As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Shi Lirong, Yin Yimin and He Shiyou; six non-executive directors, Hou Weigui, Lei Fanpei, Xie Weiliang, Wang Zhancheng, Zhang Junchao and Dong Lianbo; and five independent non-executive directors, Qu Xiaohui, Wei Wei, Chen Naiwei, Tan Zhenhui and Timothy Alexander Steinert.

APPENDIX I: FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH PRC ASBES (UNAUDITED)

Consolidated Balance Sheet
30 June 2011

Currency: RMB'000
(English translation for reference only)

	30 June 2011 (unaudited)	31 December 2010 (audited)
Assets		
Current assets		
Cash	**15,748,613**	15,383,207
Financial assets held for trading	**1,009,251**	123,365
Bills receivable	**5,368,265**	1,289,877
Trade receivables	**20,016,721**	17,563,925
Factored trade receivables	**3,746,567**	3,016,569
Other receivables	**2,281,773**	1,389,783
Prepayments	**619,957**	449,664
Inventories	**15,146,229**	12,103,670
Amount due from customers for contract works	**13,198,314**	14,208,039
Total current assets	**77,135,690**	65,528,099
Non-current assets		
Available-for-sale investments	**644,456**	342,706
Long-term trade receivables	**1,021,506**	567,444
Factored long-term trade receivables	**4,153,213**	4,972,718
Long-term equity investments	**446,110**	917,989
Fixed assets	**6,753,129**	6,523,505
Construction in progress	**1,478,520**	1,146,739
Intangible assets	**894,280**	891,290
Deferred development costs	**1,748,669**	1,466,504
Deferred tax assets	**665,617**	655,245
Long-term deferred assets	**38,470**	50,032
Other non-current assets	**1,505,167**	1,090,086
Total non-current assets	**19,349,137**	18,624,258
TOTAL ASSETS	**96,484,827**	84,152,357

Consolidated Balance Sheet (continued)
30 June 2011

Currency: RMB'000
(English translation for reference only)

	30 June 2011 (unaudited)	31 December 2010 (audited)
Liabilities and shareholders' equity		
Current liabilities		
Short-term loans	**15,767,989**	6,578,413
Bank advances on factored trade receivables	**4,350,893**	3,016,569
Derivative financial liabilities	**10,924**	40,139
Bills payable	**10,456,007**	10,056,477
Trade payables	**17,884,230**	15,441,206
Amount due to customers for contract works	**3,226,918**	2,772,669
Advances from customers	**2,400,993**	2,744,694
Salary and welfare payables	**1,952,698**	3,097,927
Taxes payable	**(766,143)**	(321,345)
Dividends payable	**1,155,713**	136,302
Other payables	**4,206,659**	2,976,325
Deferred income	**88,800**	91,256
Provisions	**274,721**	260,693
Long-term loans due within one year	**886,055**	1,322,817
Total current liabilities	**61,896,457**	48,214,142
Non-current liabilities		
Long-term loans	**1,394,176**	1,719,310
Bank advances on factored long-term trade receivables	**4,153,213**	4,972,718
Bonds cum warrants	**3,803,772**	3,755,790
Deferred tax liabilities	**70,920**	89,167
Other non-current liabilities	**388,556**	439,232
Total non-current liabilities	**9,810,637**	10,976,217
Total liabilities	**71,707,094**	59,190,359

Consolidated Balance Sheet (continued)
30 June 2011

Currency: RMB'000
(English translation for reference only)

	30 June 2011 (unaudited)	31 December 2010 (audited)
Shareholders' equity		
Share capital	**2,866,732**	2,866,732
Capital reserves	**9,105,645**	9,070,975
Restricted shares subject to lock-up	**(276,266)**	(276,266)
Surplus reserves	**1,537,512**	1,537,512
Retained profits	**9,991,658**	9,222,387
Proposed final dividends	**—**	841,297
Foreign currency translation differences	**(173,429)**	(168,765)
Total equity attributable to equity holders of the parent	**23,051,852**	23,093,872
Minority interests	**1,725,881**	1,868,126
Total shareholders' equity	**24,777,733**	24,961,998
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**96,484,827**	84,152,357

Legal representative: Hou Weigui

Chief Financial Officer: Wei Zaisheng

Head of Finance Division: Shi Chunmao

Consolidated Income Statement
Six months ended 30 June 2011

Currency: RMB'000
(English translation for reference only)

	Six months ended 30 June 2011 (unaudited)	Six months ended 30 June 2010 (unaudited)
Operating revenue	**37,336,595**	30,725,420
Less: Operating costs	**26,243,731**	20,446,914
Taxes and surcharges	**896,401**	467,512
Selling and distribution costs	**4,913,396**	4,000,052
Administrative expenses	**1,136,385**	1,150,959
Research and deferred development costs	**3,664,474**	3,195,277
Finance expenses	**440,485**	740,635
Impairment losses	**286,717**	152,089
Add: Gains/(losses) from changes in fair value	**(236,551)**	77,926
Investment income	**1,165,289**	23,978
Including: Share of profits and losses of jointly-controlled entities and associates	**9,407**	22,197
Operating profit	**683,744**	673,886
Add: Non-operating income	**629,119**	743,811
Less: Non-operating expenses	**40,114**	24,838
Including: Loss on disposal of non-current assets	**5,087**	10,222
Total profit	**1,272,749**	1,392,859
Less: Income tax	**436,419**	399,571
Net profit	**836,330**	993,288
Net profit attributable to owners of the parent	**769,271**	877,489
Minority interests	**67,059**	115,799
Earnings per share		
Basic earnings per share	**RMB0.27**	RMB0.32
Diluted earnings per share	**RMB0.27**	RMB0.31
Other comprehensive income	**(2,303)**	(135,085)
Total comprehensive income	**834,027**	858,203
Including:		
Total comprehensive income attributable to owners of the parent	**764,607**	742,499
Total comprehensive income attributable to minority interests	**69,420**	115,704

Consolidated Statement of Changes in Equity

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	Minority 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 Statement of Changes in Equity (continued)

Currency: RMB'000
(English translation for reference only)

For the six months ended 30 June 2010 (unaudited)

	Share capital	Capital reserve	Restricted Shares subject to lock-up	Surplus reserve	Retained profits	Proposed Final dividends	Foreign currency translation differences	Sub-total	Minority interests	Total shareholders' equity
	Equity attributable to equity holders of the parent									
I. Current period's opening balance	1,831,336	6,749,899	(447,235)	1,505,203	6,853,682	552,425	(220,043)	16,825,267	1,123,599	17,948,866
II. Changes during the period										
(1) Net profit	—	—	—	—	877,489	—	—	877,489	115,799	993,288
(2) Other comprehensive income	—	—	—	—	—	—	(134,990)	(134,990)	(95)	(135,085)
Total comprehensive income	—	—	—	—	877,489	—	(134,990)	742,499	115,704	858,203
(3) Shareholder's capital injection and capital reduction										
1. Capital injection from shareholders	79,819	3,117,060	156,663	—	—	—	—	3,353,542	—	3,353,542
2. Equity settled share expense charged to equity	—	79,478	—	—	—	—	—	79,478	—	79,478
3. Others	—	—	—	—	—	—	—	—	(2,200)	(2,200)
(4) Profit appropriation										
1. Appropriation to surplus reserves	—	—	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	(7,936)	(552,425)	—	(560,361)	(156,736)	(717,097)
3. Proposed final dividends	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—
(5) Transfer of shareholders' equity										
1. Transfer of capital reserve to share capital	955,577	(955,577)	—	—	—	—	—	—	—	—
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	—	443,298	—	—	—	—	—	443,298	—	443,298
III. Current period's closing balance	2,866,732	9,434,158	(290,572)	1,505,203	7,723,235	—	(355,033)	20,883,723	1,080,367	21,964,090

Consolidated Cash Flow Statement
Six months 30 June 2011

Currency: RMB'000
(English translation for reference only)

	Six months ended 30 June 2011 (unaudited)	Six months ended 30 June 2010 (unaudited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	**31,366,465**	31,398,128
Refunds of taxes	**2,671,771**	1,986,587
Cash received relating to other operating activities	**2,353,862**	444,551
Sub-total of cash inflows	**36,392,098**	33,829,266
Cash paid for goods and services	**26,748,405**	23,229,494
Cash paid to and on behalf of employees	**6,901,016**	5,844,914
Cash paid for all types of taxes	**2,695,191**	3,139,200
Cash paid relating to other operating activities	**6,218,839**	5,299,970
Sub-total of cash outflows	**42,563,451**	37,513,578
Net cash flows from operating activities	**(6,171,353)**	(3,684,312)
II. Cash flows from investing activities		
Cash received from sale of investments	**493,155**	—
Cash received from return on investments	**114,601**	3,581
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	**25,298**	2,983
Sub-total of cash inflows	**633,054**	6,564
Cash paid to acquisition of fixed asset, intangible assets and other long term assets	**1,520,120**	1,433,074
Cash paid for acquisition of investments	**916,522**	4,500
Sub-total of cash outflows	**2,436,642**	1,437,574
Net cash flows from investing activities	**(1,803,588)**	(1,431,010)

Consolidated Cash Flow Statement (continued)
Six months ended 30 June 2011

Currency: RMB'000
(English translation for reference only)

	Six months ended 30 June 2011 (unaudited)	Six months ended 30 June 2010 (unaudited)
III. Cash flows from financing activities		
Cash received from capital injections	**6,696**	3,197,918
Including: Capital injection into subsidiaries by minority shareholders	**6,696**	—
Cash received from borrowings	**13,905,120**	4,834,596
Sub-total of cash inflows	**13,911,816**	8,032,514
Cash repayments of borrowings	**5,477,440**	3,778,919
Cash payments for distribution of dividends, profits and for interest expenses	**428,740**	912,571
Sub-total of cash outflows	**5,906,180**	4,691,490
Net cash flows from financing activities	**8,005,636**	3,341,024
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	**(68,264)**	(15,988)
V. Net increase in cash and cash equivalents	**(37,569)**	(1,790,286)
Add: cash and cash equivalents at beginning of year	**14,905,099**	14,075,822
VI. Net balance of cash and cash equivalents	**14,867,530**	12,285,536

Balance Sheet
30 June 2011

Currency: RMB'000
(English translation for reference only)

	30 June 2011 (Unaudited)	31 December 2010 (Audited)
Assets		
Current assets		
Cash	**10,093,325**	9,690,867
Financial assets held for trading	**993,692**	23,984
Bills receivable	**5,211,634**	1,199,161
Trade receivables	**28,341,563**	24,283,587
Factored trade receivables	**3,607,729**	2,864,307
Prepayments	**152,358**	85,559
Dividends receivable	**1,752,246**	27,418
Other receivables	**3,917,393**	5,678,250
Inventories	**5,844,424**	5,501,368
Amount due from customers for contract works	**11,693,928**	12,668,254
Total current assets	**71,608,292**	62,022,755
Non-current assets		
Available-for-sale investments	**212,448**	244,448
Long-term trade receivables	**1,804,596**	1,262,311
Factored long-term trade receivables	**4,278,213**	5,097,718
Long-term equity investments	**3,174,177**	3,515,824
Fixed assets	**4,404,830**	4,253,887
Construction in progress	**919,550**	796,916
Intangible assets	**503,267**	492,918
Deferred development costs	**422,381**	350,767
Deferred tax assets	**429,094**	447,416
Long-term deferred assets	**721**	—
Other non-current assets	**1,505,167**	1,090,086
Total non-current assets	**17,654,444**	17,552,291
TOTAL ASSETS	**89,262,736**	79,575,046

Balance Sheet (continued)
30 June 2011

Currency: RMB'000
(English translation for reference only)

	30 June 2011 (Unaudited)	31 December 2010 (Audited)
Liabilities and shareholders' equity		
Current liabilities		
Short-term loans	**9,814,845**	4,165,978
Bank advances on factored trade receivables	**4,212,055**	2,864,307
Bills payable	**12,987,982**	9,444,653
Trade payables	**21,608,109**	25,507,206
Amount due to customers for contract works	**2,491,452**	1,703,293
Advances from customers	**1,835,944**	2,110,666
Salary and welfare payables	**230,571**	504,335
Taxes payable	**(1,147,085)**	(948,244)
Dividends payable	**841,171**	97
Other payables	**12,042,621**	8,030,437
Deferred income	**33,597**	7,805
Provisions	**133,939**	109,493
Long-term loans due within one year	**711,876**	1,087,589
Total current liabilities	**65,797,077**	54,587,615
Non-current liabilities		
Long-term loans	**500,000**	728,497
Bank advances on factored long-term trade receivables	**4,278,213**	5,097,718
Bonds cum warrants	**3,803,772**	3,755,790
Deferred tax liabilities	**66,048**	66,048
Other non-current liabilities	**388,556**	439,232
Total non-current liabilities	**9,036,589**	10,087,285
Total liabilities	**74,833,666**	64,674,900
Shareholders' equity		
Share capital	**2,866,732**	2,866,732
Capital reserves	**9,100,872**	9,066,202
Restricted shares subject to lock-up	**(276,266)**	(276,266)
Surplus reserves	**875,295**	875,295
Retained profits	**1,878,059**	1,542,299
Proposed final dividends	**—**	841,297
Foreign currency translation differences	**(15,622)**	(15,413)
Total shareholders' equity	**14,429,070**	14,900,146
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**89,262,736**	79,575,046

Income Statement
Six months ended 30 June 2011

Currency: RMB'000
(English translation for reference only)

	Six months ended 30 June 2011 (Unaudited)	Six months ended 30 June 2010 (Unaudited)
Operating revenue	**30,966,602**	27,241,412
Less: Operating costs	**27,606,825**	22,887,054
Taxes and surcharges	**115,754**	82,690
Selling and distribution costs	**3,126,795**	2,841,351
Administrative expenses	**639,113**	627,215
Research and deferred development costs	**1,044,595**	572,845
Finance expenses	**601,960**	723,057
Impairment losses	**218,236**	179,794
Add: Gains/(losses) from changes in fair value	**(181,464)**	—
Investment income	**2,814,865**	594,562
Including: Share of profits and losses of Jointly controlled entities and associates	**(1,942)**	12,898
Operating profit	**246,725**	(78,032)
Add: Non-operating income	**143,998**	119,078
Less: Non-operating expenses	**30,785**	4,772
Including: Loss on disposal of non-current assets	**1,588**	3,477
Total profit	**359,938**	36,274
Less: Income tax	**24,178**	(19,099)
Net profit	**335,760**	55,373
Other comprehensive income	**(209)**	(203)
Total comprehensive income	**335,551**	55,170

Statement of Changes in Equity

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**

Statement of Changes in Equity (continued)

Currency: RMB'000
(English translation for reference only)

For the six months ended 30 June 2010 (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	1,831,336	6,745,877	(447,235)	842,986	2,100,753	552,425	(14,813)	11,611,329
II. Changes during the period								
(1) Net profit	—	—	—	—	55,373	—	—	55,373
(2) Other comprehensive income	—	—	—	—	—	—	(203)	(203)
Total comprehensive income	—	—	—	—	55,373	—	(203)	55,170
(3) Shareholder's capital injection and capital reduction								
1. Capital injection from shareholders	79,819	3,116,945	156,663	—	—	—	—	3,353,427
2. Equity settled share expenses charged to equity	—	79,478	—	—	—	—	—	79,478
3. Others	—	—	—	—	—	—	—	—
(4) Profit appropriation								
1. Appropriation to surplus reserves	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	(7,936)	(552,425)	—	(560,361)
3. Proposed final dividends	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
(5) Transfer of shareholders' equity								
1. Transfer of capital reserve to share capital	955,577	(955,577)	—	—	—	—	—	—
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	—	443,292	—	—	—	—	—	443,292
III. Current period's closing balance	2,866,732	9,430,015	(290,572)	842,986	2,148,190	—	(15,016)	14,982,335

Cash Flow Statement
Six months ended 30 June 2011

Currency: RMB'000
(English translation for reference only)

	Six months ended 30 June 2011 (unaudited)	Six months ended 30 June 2010 (unaudited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	**25,995,501**	26,916,276
Refunds of taxes	**2,135,676**	1,561,518
Cash received relating to other operating activities	**3,250,718**	217,250
Sub-total of cash inflows	**31,381,895**	28,695,044
Cash paid for goods and services	**29,730,608**	26,989,354
Cash paid to and on behalf of employees	**2,477,421**	1,424,783
Cash paid for all types of taxes	**309,497**	330,638
Cash paid relating to other operating activities	**3,072,147**	4,001,059
Sub-total of cash outflows	**35,589,673**	32,745,834
Net cash flows from operating activities	**(4,207,778)**	(4,050,790)
II. Cash flows from investing activities		
Cash received from sale of investments	**493,155**	—
Cash received from return on investments	**28,572**	41,267
Cash received from the disposal of fixed assets, intangible assets and other long-term assets, net	**25,048**	—
Sub-total of cash inflows	**546,775**	41,267
Cash paid to acquisition of fixed asset, intangible assets and other long term assets	**607,575**	985,214
Cash paid for acquisition of investments	**214,500**	—
Sub-total of cash outflows	**822,075**	985,214
Net cash flows from investing activities	**(275,300)**	(943,947)

Cash Flow Statement (continued)
Six months ended 30 June 2011

Currency: RMB'000
(English translation for reference only)

	Six months ended 30 June 2011 (unaudited)	Six months ended 30 June 2010 (unaudited)
III. Cash flows from financing activities		
Cash received from capital injection	**—**	3,197,918
Cash received from borrowings	**7,356,664**	3,577,794
Sub-total of cash inflows	**7,356,664**	6,775,712
Cash repayment of borrowings	**2,312,007**	2,241,650
Cash payments for distribution of dividends, profits and for interest expenses	**281,531**	859,408
Sub-total of cash outflows	**2,593,538**	3,101,058
Net cash flows from financing activities	**4,763,126**	3,674,654
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	**(65,585)**	(45,172)
V. Net increase in cash and cash equivalents	**214,463**	(1,365,255)
Add: cash and cash equivalents at beginning of year	**9,505,157**	9,808,228
VI. Net balance of cash and cash equivalents	**9,719,620**	8,442,973

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Prepared under HKFRSs)
Six months ended 30 June 2011

	Six months ended 30 June 2011 (unaudited) ***RMB'000***	Six months ended 30 June 2010 (unaudited) *RMB'000*
Revenue	**37,336,595**	30,725,420
Cost of sales	**(27,224,250)**	(20,874,496)
Gross profit	**10,112,345**	9,850,924
Other income and gains	**2,116,556**	860,769
Research and development costs	**(3,664,474)**	(3,195,277)
Selling and distribution costs	**(4,983,647)**	(4,065,957)
Administrative expenses	**(1,260,362)**	(1,142,620)
Other expenses	**(547,406)**	(543,251)
Finance costs	**(509,670)**	(393,926)
Share of profits and losses of:		
Associates	**9,407**	22,197
Profit before tax	**1,272,749**	1,392,859
Income tax expense	**(436,419)**	(399,571)
Profit for the period	**836,330**	993,288
Attributable to:	**769,271**	877,489
Equity owners of the parent	**67,059**	115,799
Minority interests	**836,330**	993,288
Earnings per share attributable to ordinary shareholders of the parent		
Basic	**RMB0.27**	RMB0.32
Diluted	**RMB0.27**	RMB0.31
Other comprehensive income	**(2,303)**	(135,085)
Comprehensive income	**834,027**	858,203
Attributable to:	**764,607**	742,499
Equity owners of the parent	**69,420**	115,704
Minority	**834,027**	858,203

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Prepared under HKFRSs)
30 June 2011

	30 June 2011 (Unaudited) *RMB'000*	31 December 2010 (Audited) *RMB'000*
Non-current assets		
Property, plant and equipment	**8,270,119**	7,720,276
Prepaid land lease payments	**752,919**	758,805
Intangible assets	**1,873,554**	1,582,564
Investments in a jointly-controlled entity	**50,720**	2,255
Investments in associates	**395,390**	915,734
Available-for-sale investments	**644,456**	342,706
Long-term trade receivables	**1,021,506**	567,444
Factored long-term trade receivables	**4,153,213**	4,972,718
Deferred tax assets	**665,617**	655,245
Pledged deposits	**1,066,673**	1,090,086
Other non-current assets	**438,494**	—
Total non-current assets	**19,332,661**	18,607,833
Current assets		
Prepaid land lease payments	**16,476**	16,425
Inventories	**15,146,229**	12,103,670
Amount due from customers for contract works	**13,198,314**	14,208,039
Trade and bills receivables	**25,384,986**	18,853,802
Factored trade receivables	**3,746,567**	3,016,569
Prepayments, deposits and other receivables	**4,532,333**	3,196,314
Financial assets held for trading	**1,009,251**	123,365
Pledged deposits	**783,533**	407,009
Fixed deposits	**97,550**	71,099
Cash and cash equivalents	**14,867,530**	14,905,099
Total current assets	**78,782,769**	66,901,391
Current liabilities		
Trade and bills payables	**28,340,237**	25,497,683
Amount due to customers for contract works	**3,226,918**	2,772,669
Other payables and accruals	**9,128,974**	9,320,689
Interest-bearing bank borrowings	**16,654,044**	7,901,230
Bank advances on factored trade receivables	**4,350,893**	3,016,569
Tax payable	**659,357**	885,728
Derivative financial instruments	**10,924**	40,139
Dividends payable	**1,155,713**	136,302
Total current liabilities	**63,527,060**	49,571,009
Net current assets	**15,255,709**	17,330,382
Total assets less current liabilities	**34,588,370**	35,938,215

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
(Prepared under HKFRSs)
30 June 2011

	30 June 2011 (Unaudited) *RMB'000*	31 December 2010 (Audited) *RMB'000*
Total assets less current liabilities	**34,588,370**	35,938,215
Non-current liabilities		
Interest-bearing bank borrowings	**1,394,176**	1,719,310
Bank advances on factored long-term trade receivables	**4,153,213**	4,972,718
Bonds cum warrants	**3,803,772**	3,755,790
Deferred tax liabilities	**70,920**	89,167
Financial guarantee contract	**3,689**	3,689
Provision for retirement benefits	**42,847**	43,332
Other long-term payables	**342,020**	392,211
Total non-current liabilities	**9,810,637**	10,976,217
Net assets	**24,777,733**	24,961,998
Equity		
Equity attributable to shareholders of the parent		
Issued capital	**2,866,732**	2,866,732
Restricted shares remaining in lock-up	**(276,266)**	(276,266)
Reserves	**20,461,386**	19,662,109
Proposed final dividends	**—**	841,297
	23,051,852	23,093,872
Minority interests	**1,725,881**	1,868,126
Total equity	**24,777,733**	24,961,998

Huo Weigui
Director

Shi Lirong
Director

1. SUMMARY OF SIGNIFICANT 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.

The impacts of new and revised HKFRSs and HKASs

HKAS 24 (Revised)	Related Party Disclosures
HK(IFRIC) — Int 19	*Extinguishing Financial Liabilities with Equity Instruments*

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a limited exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

HK(IFRIC) — Int 19 *Extinguishing Financial Liabilities with Equity Instruments* addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with HKAS 39 Financial Instruments: Recognition and Measurement and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. While the adoption of the revised standard will result in changes in the accounting policy, the revised standard does not have any impact on financial position of the Group.

Improvements to HKFRSs

In May 2010, HKICPA issued *Improvements to HKFRSs 2010* which set out amendments to a number of HKFRSs. These amendments were adopted by the Group since January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

(a) HKFRS 3 *Business Combinations:* Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

    In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

    The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(b) HKAS 1 *Presentation of Financial Statements:* Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) HKAS 27 *Consolidated and Separate Financial Statements:* Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

The following amendments to standards do not have any impacts on the accounting policies, financial position or result of the Group:

HKFRS 1 (Revised)	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HK(IFRIC) — Int 14 (Revised)	Amendments to HK(IFRIC) — Int 14 *Prepayments of a Minimum Funding Requirement*[3]
HKAS 32 (Revised)	Amendment to HKAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*[1]

2. SEGMENT INFORMATION

An analysis of the Group's revenue and profit by operating segment is set out in the following table:

	Networks *RMB'000*	Terminals *RMB'000*	Telecommunications software systems, services and other products *RMB'000*	Total *RMB'000*
Six months ended 30 June 2011				
Segment revenue:				
Telecommunications system contracts	**20,522,957**	**—**	**3,979,352**	**24,502,309**
Sale of goods and services	**—**	**11,214,730**	**1,619,556**	**12,834,286**
Total	**20,522,957**	**11,214,730**	**5,598,908**	**37,336,595**
Segment results	**3,871,167**	**456,438**	**955,462**	**5,283,067**
Interest income				**51,913**
Dividend income and unallocated gains				**2,064,643**
Unallocated expenses				**(5,626,611)**
Finance costs				**(509,670)**
Share of profits and losses of:				
Jointly-controlled entity				**—**
Associates				**9,407**
Profit before tax				**1,272,749**
As at 30 June 2011				
Segment assets	**39,657,486**	**12,174,293**	**10,819,036**	**62,650,815**
Investment in a jointly-controlled entity				**50,720**
Interest in associates				**395,390**
Unallocated assets				**35,018,505**
Total assets				**98,115,430**
Segment liabilities	**10,536,383**	**721,182**	**2,874,452**	**14,132,017**
Unallocated liabilities				**59,205,680**
Total liabilities				**73,337,697**
Six months ended 30 June 2011				
Other segment information:				
Impairment losses recognised in the income statement	**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**

	Networks *RMB'000*	Terminals *RMB'000*	Telecommunications software systems, services and other products *RMB'000*	Total *RMB'000*
Six months ended 30 June 2010				
Segment revenue:				
Telecommunications system contracts	19,000,326	—	2,558,066	21,558,392
Sale of goods and services	—	7,790,253	1,376,775	9,167,028
	19,000,326	7,790,253	3,934,841	30,725,420
Segment results	4,464,723	636,737	709,482	5,810,942
Bank and other interest income				42,800
Dividend income and unallocated gains				817,969
Other unallocated expenses				(4,907,123)
Finance costs				(393,926)
Share of profits and losses of associates				22,197
Profit before tax				1,392,859
31 December 2010				
Segment assets	36,764,820	7,898,628	9,058,794	53,722,242
Interest in associates				915,734
Investment in a jointly-controlled entity				2,255
Other unallocated assets				30,868,993
Total assets				85,509,224
Segment liabilities	10,274,691	700,294	2,531,665	13,506,650
Unallocated liabilities				47,040,576
Total liabilities				60,547,226
Six months ended 30 June 2010				
Other segment information:				
Impairment losses recognised in profit or loss	94,051	38,561	19,477	152,089
Depreciation and amortisation	312,692	128,206	64,757	505,655
Capital expenditure	1,018,958	417,780	211,020	1,647,758

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 2011 and 2010 is set out in the following table:

	Six months ended 30 June 2011 *RMB'000*	Six months ended 30 June 2010 *RMB'000*
The PRC	**16,526,771**	15,469,878
Asia (excluding the PRC)	**6,807,562**	5,250,734
Africa	**5,011,605**	4,463,961
Europe, Americas and Oceania	**8,990,657**	5,540,847
	37,336,595	30,725,420

3. REVENUE

Revenue, which is also the Group's turnover, represents the aggregate of an appropriate proportion of contract revenue from telecommunications system contracts and the invoiced value of goods and services sold net of value-added tax ("VAT") and after allowances for goods returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

An analysis of revenue is as follows:

	Six months ended 30 June 2011 *RMB'000*	Six months ended 30 June 2010 *RMB'000*
Turnover		
Telecommunications system contracts	**24,502,309**	21,558,392
Sale of goods and services	**12,834,286**	9,167,028
	37,336,595	30,725,420

4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June 2011 *RMB'000*	Six months ended 30 June 2010 *RMB'000*
Cost of inventories sold	**22,937,870**	17,998,127
Depreciation	**501,520**	419,211
Amortisation of intangible assets	**25,370**	13,349
Amortisation of development expenses	**120,014**	73,095
Provision for bad and doubtful debts*	**270,740**	254,587
Provision for warranties**	**126,966**	30,384
Write-down of inventories to net realisable value**	**15,977**	(102,498)
Exchange difference, net	—	271,470
Loss on disposal of fixed assets*	**5,087**	10,222
Equity-settled share expense	**34,670**	79,478

* Provision for bad and doubtful debts, loss on disposal of fixed assets are included in "Other expenses" in the consolidated statement of comprehensive income.

** Provision for warranties, Write-down of inventories to net realisable value are included in "Cost of sales" in the consolidated statement of comprehensive income.

5. TAXATION

	Six months ended 30 June 2011 *RMB'000*	Six months ended 30 June 2010 *RMB'000*
Group:		
Current — Mainland China	**399,629**	387,428
Current — Overseas	**65,879**	58,084
Deferred	**(29,089)**	(45,941)
Total tax charge for the period	**436,419**	399,571

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 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 China has been standardised at 25%.

As a national-grade hi-tech enterprise, Company enjoys an enterprise income tax rate of 15%. National-grade hi-tech enterprise of 2011 was under progress of evaluation.

6. DIVIDEND

The Directors do not recommend any payment of interim dividend for the six months ended 30 June 2011 (Same period in 2010: nil).

7. 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 2011	Six months ended 30 June 2010
Earnings		
Net profit attributable to ordinary equity holders of the parent company for the period	**769,271**	877,489
Shares		
Weighted average number of ordinary shares of the Company in issue	**2,804,325**	2,736,790
Diluting effect — weighted average number of ordinary shares		
Restricted Shares under share incentive scheme	**61,864**	64,928
Adjusted weighted average number of ordinary shares in issue	**2,866,189**	2,801,718

8. 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 2011 RMB'000	31 December 2010 RMB'000
Within 6 months	**22,212,506**	15,933,535
7 to 12 months	**3,167,062**	2,563,041
1 to 2 years	**972,324**	877,934
2 to 3 years	**54,600**	46,736
Over 3 years	**—**	—
	26,406,492	19,421,246
Less: Current portion of trade and bills receivables	**(25,384,986)**	(18,853,802)
Long-term portion	**1,021,506**	567,444

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

	30 June 2011 RMB'000	31 December 2010 RMB'000
Ultimate controlling company	**—**	—
Jointly-controlled entities	**206,587**	—
Associates	**41**	3,977
Other Related companies	**—**	7,685
	206,628	11,662

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

9. 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 2011 RMB'000	31 December 2010 RMB'000
Within 6 months	**28,021,086**	25,302,896
7 to 12 months	**148,811**	34,558
1 to 2 years	**98,162**	104,584
2 to 3 years	**22,581**	22,766
Over 3 years	**49,597**	32,879
Total	**28,340,237**	25,497,683

The balances due to ultimate controlling company, related companies and associates included in the above are as follow:

	30 June 2011 *RMB'000*	31 December 2010 *RMB'000*
Ultimate controlling company	**87,854**	152,772
Associates	**65,430**	69,613
Other related companies	**25,256**	122,967
Total	**178,540**	345,352

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

Trade payables are non-interest-bearing and are normally settled on 90-day terms.

10. POST BALANCE SHEET DATE EVENTS

(a) The plan of capitalisation of the capital reserve of the Company for 2010 was considered and passed at the 2010 Annual General Meeting held on 17 May 2011. The Company made a bonus issue of 2 shares for every 10 shares based on the Company's current total share capital of 2,866,731,684 shares. The equity distribution plan was completed on 7 July 2011.

(b) On 8 July 2011, ZTE (H.K.) Limited ("ZTE (H.K.)") (as borrower) entered into a USD900 million syndicate loan agreement with 10 international banks including Bank of China (Hong Kong) Limited ("BOCHK") (as mandated lead arranger). In view of the future provision of loan facilities to ZTE (H.K.) by the loan syndicate pursuant to the terms and conditions of the syndicate loan agreement, the Company (as guarantor) entered, upon the request of the loan syndicate, into a guarantee agreement with BOCHK on 8 July 2011 to provide guarantee in favour of the loan syndicate to assure proper fulfillment of payments and all duties of ZTE (H.K.) under the syndicate loan agreement.

(c) The unlocking of 60,532,063 Subjects Shares under the Third Unlocking of the Phase I Share Incentive Scheme of the Company was completed on 19 July 2011 and the listing and circulation of such shares commenced on 21 July 2011.

(d) On 29 July 2011, the Company and ZTE USA, the Company's subsidiary in the United States, received a statement of claim filed by a U.S. company, simultaneously with the International Trade Commission (ITC) and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and its US subsidiary of infringement upon its 3G patent rights. In the ITC case, the U.S. company demanded the issue of a permanent exclusion order and injunction that would prevent our terminal products involved in the case 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. As of the approval date of the financial statements (30 August 2011), the Company has not paid any compensation or incurred any loss because of the litigation.