

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 1. COMPANY BACKGROUND

The Company is a joint-stock limited company jointly founded by Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited and China Precision Machinery Import & Export Shenzhen Company, Lishan Microelectronics Corporation, Shenzhen Zhaoke Investment Development Co., Limited, Hunan Nantian (Group) Company, Limited, Shaanxi Shunda Communications Corporation (now renamed Shaanxi Telecommunications Industrial Company), No.7 Research Institute of Post, Telegraphs & Telephones Ministry (郵電部第七研究所) (now renamed China Mobile Telecommunications No.7 Research Institute), Jilin Posts and Telecommunications Equipment Company and Hebei Telecommunications Equipment Company, Limited and incorporated through a public offering of shares to the general public. As approved under Document Zheng Jian Fa Zi (1997) No.452 and Document Zheng Jian Fa Zi No.453 issued by China Securities Regulatory Commission, on 6 October 1997, the Company issued within the network 58,500,000 ordinary shares with a par value of RMB1.00 per share through the Shenzhen Stock Exchange and issued 6,500,000 ordinary shares with a par value of RMB1.00 per share to its employees at an issue price of RMB6.81 per share.

In 2003, Shenzhen Zhaoke Investment Development Co., Limited transferred all its shares in the Company to Shenzhen Gaotejia Venture Investment Co., Limited. The time of the share transfer was already more than three years from the date of establishment of the Company and was therefore in compliance with the applicable provision under the Company Law. In December 2003, Shenzhen Gaotejia Venture Investment Co., Limited transferred all its shares in the Company to Fortune Trust & Investment Co., Ltd.

On 11 November 1997, the Company was registered and established upon approval by Shenzhen Industrial and Commercial Administrative Bureau with registration no. of 4403011015176 (revised), and was issued a Corporate Business License (license no.: Shen Si Zi N35868). Scope of operations: production of remote control switch systems, multi-media communications systems and communications transmission systems; provision of technical design, development, consultation and related services for the research and manufacture and production of mobile communications systems equipment, satellite communications, microwave communications equipment, beepers, computer hardwares and softwares, closed-circuit TVs, microwave communications, automated signal control, computer information processing, process monitoring systems, fire alarm systems; provision of technical design, development, consultation and related services for wireline and wireless communications projects of railways, mass transit railways, urban rail transit, highways, plants and mines, ports and terminals and airports (excluding restricted projects); purchase and sale of electronics devices, micro-electronics components (excluding franchised, state-controlled and monopolized merchandises); sub-contracting of communications and related projects outside the PRC and global tendering projects within the PRC, as well as import and export of the equipment and materials required by the aforesaid projects outside the PRC and sending labours and workers for carrying out the aforesaid projects outside the PRC; technical development and sale of electronics systems equipment (excluding restricted items and franchised, state-controlled and monopolized merchandises); operations of import and export businesses (implemented in accordance with the provision under the certificate of qualifications approved and issued by Shenzhen Bureau of Trade and Development); specialized sub-contracting of telecommunications projects.

On 18 November 1997, the 58,500,000 ordinary shares publicly issued by the Company to the general public were listed and traded on the Shenzhen Stock Exchange.

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## NOTE 1. COMPANY BACKGROUND (continued)

On 11 September 1998, as approved by Document Shen Zheng Ban Fu (1998) No.72 issued by the Securities Administration Office of Shenzhen, the Company increased its capital by a total of 75,000,000 shares by way of an issue of 3 shares transferred from its capital surplus reserves as at 30 June 1998 for every 10 shares. Thereupon the Company's registered capital was increased to RMB325,000,000.

On 27 May 1999, pursuant to the consent under Document Shen Zheng Ban Zi (1999) No.78 issued by the Securities Administration Office of Shenzhen and the approval under Document Zheng Jian Gong Si Zi (1999) No.42 issued by China Securities Regulatory Commission, the Company placed 19,500,000 ordinary shares to the public shareholders. The placing was completed on 18 August 1999. Thereupon the Company's registered capital was increased to RMB344,500,000.

On 20 May 2000, pursuant to the approval at the Company's shareholders' meeting, the Company increased its capital by a total of 68,900,000 shares by way of an issue of 2 shares transferred from its capital surplus reserves as at 31 December 1999 for every 10 shares. Thereupon the Company's registered capital was increased to RMB413,400,000.

On 20 March 2001, as approved under Document Zheng Jian Gong Si Zi (2001) No.25 issued by China Securities Regulatory Commission, the Company issued an additional of 50,000,000 ordinary shares to the public at an issue price of RMB32.70 per share. Thereupon the Company's registered capital was increased to RMB463,400,000.

On 16 October 2001, pursuant to the approval at the Company's shareholders' meeting, the Company increased its capital by a total of 92,680,000 shares by way of a bonus issue on the basis of 2 shares for every 10 shares then held based on its share capital as at 30 June 2001. Thereupon the Company's registered capital was increased to RMB556,080,000.

On 25 April 2003, pursuant to a resolution passed at the Company's shareholders' meeting, the Company increased its capital by a total of 112,216,000 shares by way of an issue of 2 shares transferred from its capital surplus reserves as at 31 December 2002 for every 10 shares. Thereupon the Company's registered capital was increased to RMB667,296,000.

On 17 May 2004, pursuant to a resolution passed at the Company's shareholders' meeting, the Company increased its capital by a total of 133,459,200 shares by way of a bonus issue on the basis of 2 shares for every 10 shares then held based on its share capital as at 31 December 2003. Thereupon the Company's registered capital was increased to RMB800,755,000. The alteration formalities for industrial and commercial registration have been completed.

# NOTES TO THE FINANCIAL STATEMENTS

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## NOTE 1. COMPANY BACKGROUND (continued)

On 9 December 2004, pursuant to a resolution adopted at the Company's second temporary shareholders' meeting and the provision under the revised Articles of Association, and upon approval under Document Guo Zi Gai Ge [2004] No.865 issued by State-owned Assets Supervision and Administration Commission of the State Council and verification and approval under Document Zheng Jian Guo He Zi [2004] No.38 issued by China Securities Regulatory Commission, the Company made an overseas public offering of 160,151,040 overseas listed foreign invested shares (H Shares), of which 158,766,450 new shares were issued by the Company and 1,384,590 shares were sold by the Company's state-owned corporate shareholders. The Company's registered capital after alteration was RMB959,522. As at 10 January 2005, based on our examination and verification, the proceeds raised by the Company amounted to HKD3,523,323 (equivalent to RMB3,734,722) (translated at the fixed exchange rate for HKD to RMB of 1:1.06). After deducting the expenses related to the issue amounted to RMB161,685 as well as RMB30,859, being the amount went to the National Social Insurance Fund generated from the reduction in the number of state-owned corporate shares held by the corporate holders of state-owned shares, the Company actually injected an additional capital of RMB3,542,178 (all being monetary funds), of which RMB158,767 were increased share capital, while RMB3,383,411 were credited to capital reserves. Accordingly, the Company's registered capital increased to RMB959,522, and the alteration formalities for industrial and commercial registration have been completed.

## NOTE 2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

- (1) **The financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises and the "Accounting System for Business Enterprises" as promulgated by the Central Government of the People's Republic of China.**
- (2) **Accounting year:**  
The Company's accounting year starts on 1 January and ends on 31 December each year.
- (3) **Reporting currency for accounting:**  
The reporting currency of the Company for accounting is Renminbi.
- (4) **Recording basis and valuation principle:**  
The financial statements of the Company are prepared on an accrual basis. Assets are initially recorded at actual costs at the time of acquisition.
- (5) **Foreign currency transactions:**  
Transactions denominated in foreign currency are translated into RMB at the market exchange rates prevailing at the beginning of the year. Year-end balances of foreign currency in monetary items are adjusted at the market exchange rates prevailing at the balance sheet date. Exchange differences arising from these translations are expensed in which they arise and are included in the value of acquired assets before the same may be put into working conditions.

# NOTES TO THE FINANCIAL STATEMENTS

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## NOTE 2. MAJOR ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (6) Translation for financial statements denominated in foreign currency:

Items set out in the balance sheets are translated into RMB using the mid-point rate of the market exchange rates prevailing at the balance sheet date. Owner's equity items other than "undistributed profits" are translated into RMB using the market exchange rates prevailing at the time when the items arise. The item "undistributed profits" is stated at the amount of such item as set out in the the statements of income distributions, which translation has been done. Differences in the aggregate amount of the items under assets and liabilities and shareholders' equity after the translations are reflected under the "translation differences of foreign currency statements" added after "undistributed profits" in the balance sheets. The balance standing at the beginning of the year is stated at the amount set out in the previous year's balance sheets, which translation has been done.

Items reflecting amounts incurred as set out in the profits and the statements of income distributions are translated into RMB using the average exchange rates prevailing during the accounting period. "Net profit" in the the statements of income distributions is stated at the amount of such item as set out in the profits statement, which translation has been done. The item "undistributed profits at the beginning of the year" in the the statements of income distributions is stated at the amount set out under the previous year's "undistributed profits" at the end of the period for which translation has been done. The item "undistributed profits" in the the statements of income distributions is calculated and stated at the amounts set out under each of the other items in the the statements of income distributions, which translation has been done. Actual amounts recorded in the previous year are stated at the amounts as set out in the profits statement and the statements of income distributions for the previous reporting period for which translation has been done.

### (7) Recognition of cash equivalents:

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash with short maturities of within three months when acquired and that are subject to an insignificant risk of change in value, including short-term bonds investment available for circulation in the securities market with maturities of within three months when acquired.

### (8) Short-term investments:

Short-term investments are recognized at the actual price paid when acquired less any cash dividends or interests declared to be distributed and any cash dividends or interests received are deducted from the investment costs.

Short term investments at the balance sheet date are valued at the lower of investment costs and market value for the provision of impairment of short-term investments.

### (9) Recognition of bad debts:

Recognition of bad debts: The bad debt is determined as such when the debtor is bankrupt or dead, and the proceeds from the bankrupt's estates or the decreased property are unable to cover the debt; or the debtor fails to repay the overdue debt for more than three years with plain evidences to indicate his inability to do so.

# NOTES TO THE FINANCIAL STATEMENTS

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All amounts in '000, unless as otherwise stated

## NOTE 2. MAJOR ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (9) Recognition of bad debts: (continued)

Bad debts are recognized using the allowance method pursuant to which provision for bad debts is made for period-end balance of accounts receivable (less the amounts due from related parties) using the aging analysis method and to make provision for bad debts or expenses against accounts receivable and other receivables in different percentages according to the financial and cash flows status of the debtors; carrying balance of accounts prepaid that is expected to be uncollectible is transferred into other receivables and provision for bad debts is made according to the nature and months overdue except for debtors recognized individually according to their financial position and cash flows.

Provision for bad debts of accounts receivable are calculated on the net amount of accounts receivable at period end (less the amounts due from related parties) after deducting the amounts that are proved to be collectible by reliable evidences on the following basis:

Ageing	Percentage of provision
1-6 months	-
6-12 months	15%
12-18 months	50%
18-24 months	75%
Above 24 months	100%

Provision for expenses on other receivables are made as follows:

Ageing	Percentage of provision	Remark
1-2 months	-	
Above 2 months	100%	Applicable to other receivables arising from domestic operations
2-3 months	-	Applicable to other receivables arising from overseas operations
3-4 months	58%	Applicable to other receivables arising from overseas operations
4-5 months	75%	Applicable to other receivables arising from overseas operations
5-6 months	92%	Applicable to other receivables arising from overseas operations
Above 6 months	100%	Applicable to other receivables arising from overseas operations

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## NOTE 2. MAJOR ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (9) Recognition of bad debts: (continued)

Provision for bad debts on accounts prepaid are made as follows:

Ageing	Percentage of provision	Remark
1-6 months	–	Applicable to all accounts prepaid
6-12 months	–	Applicable to accounts prepaid in purchasing of fixed assets
6-12 months	50%	Applicable to accounts prepaid in purchasing of raw materials
12-24 months	75%	Applicable to accounts prepaid in purchasing of raw materials
12-24 months	50%	Applicable to accounts prepaid in purchasing of fixed assets
Above 24 months	100%	Applicable to all accounts prepaid

As to those accounts receivable that are uncollectible or believed to be hardly collectible as proved by conclusive evidences, specific provision for bad debts is made against those accounts receivable.

Please see Note 3.2 for further details of changes in the accounting estimates of provision for bad debts.

### (10) Inventories:

The inventories of the Company include raw materials, work-in-progress, finished goods, materials for construction-in-progress and materials sub-contracted for processing, etc. All inventories are recorded at their actual costs upon acquisition and recognized using the weighted moving average method when issued. Inventories are valued using the perpetual inventories system. Low-value consumables are amortized using the “one-off amortization method” upon incurring.

Provision for inventories are recognized at the end of accounting period. When recognizing the provision for inventories, the inventories are further classified into categories of system products (Including raw materials, work-in-progress, materials for construction-in-progress and dispatch goods, etc) and categories of terminal products (Including raw materials, work-in-progress, finished goods, etc). The cost and net realizable value of inventories are normally recognised by categories under which the provision for inventories.

At the end of the period, the carrying values of all mouldy stocks or expired stocks with no transferred value or stocks that are no longer required in production process as well as stocks that are sufficiently proved to be of no use value and transferred value are transferred into gains or losses for the current period for reducing the amount of provision for inventories.

Please see Note 3.2 for further details of changes in the accounting estimates for provision for inventories.

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## NOTE 2. MAJOR ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (11) Long-term investments:

#### 1) Long-term equity investments

##### a. Valuation of long-term equity investments

Equity investments are valued at the initial investment cost at the time of acquisition.

##### b. Difference in equity investments

Equity investments are valued at the initial investment cost when it is accounted for under the equity method. Difference in equity investments refers to the difference between the initial investment cost and the owner's equity in the investee company as well as the difference between the investment cost and the owner's equity in the investee company where equity investments is accounted for under the equity method instead of the cost method. The respective differences are treated as follows:-

The difference that the initial investment cost exceeds the owner's equity in the investee company is amortized by equal installments over a period of not more than 10 years;

The difference that the initial investment cost is lower than the owner's enjoyable equity which was formed before 10 April 2003 was included in the difference of equity investments and amortized by equal installments over a period of not less than 10 years;

The difference that the initial investment cost is lower than the owner's equity which was formed after 10 April 2003 is reckoned into capital reserve-provision for equity investments.

##### c. Recognition of return on investments

The cost method is used in accounting for long-term equity investments where the parent company has no control or joint-control or significant influence over the investee company. Investments in the investee company in which the parent company holds more than 20% (including 20%) of the equity interest, or over which the parent company exerts significant influence notwithstanding its investments account for less than 20% of the equity interest, are accounted for under the equity method.

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## NOTE 2. MAJOR ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

- 1) Long-term equity investments (continued)
  - c. Recognition of return on investments (continued)

Where the cost method is used in accounting, the return on investments is recognized when cash dividends are declared to be distributed by the investee company, provided that the return on investments is calculated to the extent of the appropriated amount of accumulated net profit so received, which are generated after the investee company accepted investment by the parent company. Any portion of the cash dividends declared to be distributed by the investee company to the parent company in excess of the aforesaid amount is treated as write back of initial investment cost to reduce the carrying value of investments; Where the equity method is used in accounting, on the basis of the net gains or losses generated after the acquisition of a stake in the investee company, investment gains or losses are recognized in the proportion of any net gains realized or net losses incurred by the investee company for the period that shall be enjoyed or shared as at the end of the accounting period and adjustment is made to the carrying value of the long-term equity investment. Upon disposal of a long-term equity investment, the difference between the carrying amount of the investment and net disposal proceeds shall be treated as gains or losses on investment for the period.

- 2) Long-term bond investments
  - a. Valuation of long-term bond investments

Investment in bonds is valued at the actual cost at the time of acquisition.

- b. Amortization of premium or discount of long-term bond Investments

Premium or discount of long-term bond investments refers to the difference between the actual cost and the nominal value of the bonds. The premium or discount of bonds is amortized on a straight-line basis within the bond-holding period upon confirmation of related income from bond interest.

- c. Recognition of return on long-term bond investments

Income from bond interest is calculated and recognized at the nominal value and nominal interest rates for the period. Income for the current period is recognized at the adjusted amount after the amortization of premium or discount of investment in bonds on a straight-line basis. Interest receivable of other bonds Investments calculated for the period is recognized as return on investments for such period. Upon disposal of a long-term bond Investment, the difference between the net disposal proceeds and carrying amount of the investment shall be treated as gains or losses on investments for the period.



# NOTES TO THE FINANCIAL STATEMENTS

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All amounts in '000, unless as otherwise stated

## NOTE 2. MAJOR ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3) Provision for impairment of long-term investments

At the end of the period, examination is made for each of the long-term investments measured at the lower of the book value and the recoverable amount. Provision for long-term investments impairment shall be made for each individual item in accordance with the difference of the recoverable amount less than the book value of the long-term investments due to declining market value or the worsening of the business operation in the investee company.

### (12) Fixed assets and accumulated depreciation:

Fixed assets refer to physical assets of higher unit value spanning over useful lives of more than one year. Fixed assets of the Company are valued at actual cost. Depreciation of fixed assets is calculated on a straight-line basis by equal installments with the annual depreciation rates being determined based on the type, historical cost, estimated useful lives, and residual value (5% of the historical cost) of the fixed assets as follows:—

Asset type	Useful lives	Annual depreciation rates
Buildings (excluding temporary plants)	30 years	3.17%
Buildings – temporary plants	3 years	31.67%
General equipment (excluding electronic equipment)	10 years	9.5%
General equipment – electronic equipment	5 years	19%
Specific equipment	5 years	19%
Motor vehicles	10 years	9.5%
Other equipment	5 years	19%

At the end of the period, in the case that the recoverable value of fixed assets is lower than their carrying value by virtue of backward technology, damages, or being left unused for a long period of time, provision for fixed asset impairment shall be made in accordance with the difference between its recoverable value and carrying value and shall be included in the gains or losses for the period. Provision for fixed asset impairment is made for each individual asset.

Please see Note 3.2 for further details of changes in the accounting estimates for the useful lives in relation to fixed assets depreciation.

### (13) Construction-in-progress:

Construction-in-progress is valued using the actual cost method. Until such time as the assets are completed and put into operational use, construction-in-progress is recognized as a fixed asset, and the capitalization of interest shall cease thereupon.

Upon the overall examination at the end of the period, provision for construction-in-progress impairment shall be made in the event that an impairment of construction-in-progress has occurred with plain evidences to indicate that (1) construction has stopped already and is estimated not to be restarted in the next 3 years; (2) economic return on the construction-in-progress is ultimately uncertain with inferior construction quality and backward technology; (3) impairment has occurred under other circumstances. Such provision shall be determined at the difference between the carrying value of a particular construction-in-progress over its net realizable value.

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## NOTE 2. MAJOR ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (14) Intangible assets

Intangible assets are valued at the actual cost at the time of acquisition.

Intangible assets are amortized by equal installments over its estimated useful lives commencing from the month for the acquisition of the intangible assets which shall be accounted for in the expenses. Provided the estimated useful lives exceeds the beneficial period stipulated by the related contract or the effective period stipulated by applicable laws, the amortization period for the intangible assets shall be determined not exceeding the shorter of the beneficial period and the effective period. If there is no explicit stipulation as to the beneficial period in the related contract or the effective period under applicable laws, the amortization period shall not exceed 10 years.

Upon the overall examination at the end of the period, provision for intangible assets shall be made in the event the recoverable amount of the intangible assets is lower than its carrying value under the following circumstances: (1) the intangible asset has been replaced by other new technologies, exerting material negative impact on its economic return to the Company; (2) market price of an intangible asset for the period drops sharply and that a recovery is not expected to be seen during the rest of the amortization period; (3) an intangible asset which legal protection period has expired but still retains some values in use; (4) impairment has occurred under other circumstances with plain evidences. Such provision shall be determined at the difference between the carrying value of a particular intangible asset over its realizable amount.

### (15) Long-term prepaid expenses:

Organization expenses: to be expensed for the first month of production and operation of the company.

Other long-term prepaid expenses to be amortized: to be accounted for on the actual amount incurred and amortized by equal installments over the beneficial period of the project. Where no economic return is expected in the accounting period ahead, the remaining value of long-term prepaid expenses shall be accounted for over the period.

### (16) Recognition of revenue:

Sales of communications systems construction: when evidence exists that the total revenue and total cost can be measured reliably, and the amounts related to the transactions will flow to the Company, the operating revenue is recognized and the cost is carried forward correspondingly by estimating the progress of completion based on the stage of completion of the contract activities or the actual cost incurred under the construction contract as a percentage of the estimated total cost of the contract.

Sales of goods: the operating revenue is recognized at one or several times when the significant risk in connection with the ownership of the product and the payment have been transferred to the buyer so that the Company no longer has custody and control over the product; the income from the sales or the voucher of the payment has been received, and that the cost in relation to the product sale can be measured accurately.

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## NOTE 2. MAJOR ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (16) Recognition of revenue: (continued)

Supply of labour service: the revenue from labour service is recognized when the supply of labour service has been completed within one accounting year since its commencement; when evidence exists that the total revenue and total cost of labour service can be measured reliably, the amounts related to the transactions will flow to the Company, and the stage of completion of the labour service can be confirmed reliably, even the commencement and completion of the labour service spans over one accounting year, the revenue can be recognized according to the percentage of completion.

Please see Note 3.2 for further details of changes in and effects of the accounting estimates for recognition progress of sales revenue from communications systems construction.

### (17) Recognition of anticipated liabilities

Obligations related to contingencies that fulfill all the following conditions are recognized by the Company as liabilities: such obligation represents an obligation currently undertaken by the Company; it is probable that performance of such obligation will lead to outflow of economic benefits from the Company; the amount of such obligation can be measured reliably.

### (18) Accounting of income tax:

The Company adopts tax-effect accounting method and adopts the liability method in case of changes in the income tax rates.

Please see Note 3.1 for further details of changes in the accounting policies for income tax and the effects therefrom.

### (19) Basis of consolidation:

Consolidated financial statements of the Group are properly prepared in accordance with the provision under the Provisional Regulations Governing Consolidated Financial Statements and Reply to the Request on the Scope of Financial Statements Consolidation Document Cai Kuai Er Zi (96) No.2 formulated by Ministry of Finance, whereby: consolidation is prepared by consolidating the amounts under the respective items based on the individual financial statements and other related information of the Company and of the respective units included in the scope of consolidation. All the material intra-group transactions and balances have been eliminated on consolidation. Minority interests are calculated and stated respectively.

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## NOTE 3: CHANGES OF ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND RECTIFICATION OF ACCOUNTING ERRORS

### 1. Changes of accounting policies

Pursuant to the relevant requirements of Document Zheng Jian Kuai Ji Zi (2001) No. 60, the Company adopts the tax-effect accounting method under the requirements of the Hong Kong GAAP Accounting Standards in the tax accounting policy adopted for the financial statements prepared for the issue of H shares. Accordingly, the income tax accounting policy under the financial statements of A shares of the Company shall change from tax payable method to tax-effect accounting method. With the approval of the seventh meeting of the third session of the Board of Directors, the Company's accounting policy on income tax changed to tax-effect accounting method effective on 1 January 2004. The Company made retrospective adjustments to the financial statements of 2003 and of prior years.

With the change in accounting policy, the Company's net profit in 2004 increased by RMB40,752 and the net assets as at 31 December 2004 increased by RMB122,954; the net profit for 2003 increased by RMB46,290 and the net assets as at 31 December 2003 increased by RMB82,202 and the retained earning prior to the year of 2003 increased by RMB35,912.

### 2. Changes of accounting estimates

#### (1) Changes in accounting estimates in the method of provision for bad and doubtful debts (net of amount due from related parties)

To ensure the comparability of the Company's accounting information and having considered the level of provision for bad debts of internationally renowned peer companies, the seventh meeting of the third session of the Board of Directors, pursuant to the accounting principle of prudence, determined that the Company shall make the following changes to the method of provision for bad and doubtful debts effective 1 January 2004:

#### A. Changes in the method of provision for bad and doubtful debts

Before the change:

The bad and doubtful debts are provided on the basis of the closing balance of each period end under the ageing analysis and the details are as follows:

Ageing	Percentage of provision
Within one year	0.5%
1 – 2 years	3%
2 – 3 years	5%
Over 3 years	10%

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## NOTE 3: CHANGES OF ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND RECTIFICATION OF ACCOUNTING ERRORS (continued)

### 2. Changes of accounting estimates (continued)

(1) Changes in accounting estimates in the method of provision for bad and doubtful debts (net of due from related parties) (continued)

#### A. Changes in the method of provision for bad and doubtful debts (continued)

After the change:

The bad and doubtful debts are provided on the basis of the closing balance net of the recoverable amount with certainty of each period end under the ageing analysis and the details are as follows:

Ageing	Percentage of provision
1 – 6 months	–
6 – 12 months	15%
12 – 18 months	50%
18 – 24 months	75%
Over 24 months	100%

As a result of the change in these accounting estimates, the Company's net profit in 2004 decreased by RMB346,470 and the net assets as at 31 December 2004 decreased by RMB346,470.

#### B. Changes in the method of the provision for other receivables.

Before the change:

Ageing	Percentage of provision
1 – 6 months	0.5%
6 – 12 months	50%
Over 1 year	100%

After the change:

Ageing	Percentage of provision
1 – 2 months	0 (applicable to all other receivables)
Over 2 months	100% (applicable to other receivables arising from domestic operations)
2 – 3 months	0 (applicable to all other receivables arising from overseas operations)
3 – 4 months	58% (applicable to other receivables arising from overseas operations)
4 – 5 months	75% (applicable to other receivables arising from overseas operations)
5 – 6 months	92% (applicable to other receivables arising from overseas operations)
Over 6 months	100% (applicable to other receivables arising from overseas operations)

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## NOTE 3: CHANGES OF ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND RECTIFICATION OF ACCOUNTING ERRORS (continued)

### 2. Changes of accounting estimates (continued)

(1) Changes in accounting estimates in the method of provision for bad and doubtful debts (net of due from related parties) (continued)

B. Changes in the method of the provision for other receivables. (continued)

As a result of the change in these accounting estimates, the Company's net profit in 2004 decreased by RMB126,776 and the net assets as at 31 December 2004 decreased by RMB126,776.

C. Changes in the method of the provision for bad debts for accounts prepaid

Before the change:

The balance of the accounts prepaid for goods purchased which is expected to be irrecoverable shall be transferred to other receivables and the method for appropriation is the same as the method adopted in the provision for bad debts of other receivables.

After the change:

The balance of the accounts prepaid for goods purchased which is expected to be irrecoverable shall be transferred to other receivables and the provision of which shall be based on the ageing analysis of individual account and the details are as follows:

Ageing	Percentage of provision
1 – 6 months	0 (applicable to accounts prepaid for the acquisition of fixed assets)
6 – 12 months	0 (applicable to accounts prepaid for the acquisition of fixed assets)
6 – 12 months	50% (applicable to accounts prepaid for the acquisition of raw materials)
12 – 24 months	75% (applicable to accounts prepaid for the acquisition of raw materials)
12 – 24 months	50% (applicable to accounts prepaid for the acquisition of fixed assets)
Over 24 months	100% (applicable to all accounts prepaid)

As a result of the change in these accounting estimates, the Company's net profit in 2004 increased by RMB7,299 and the net assets as at 31 December 2004 increased by RMB7,299.

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 3: CHANGES OF ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND RECTIFICATION OF ACCOUNTING ERRORS (continued)

### 2. Changes of accounting estimates (continued)

#### (2) Changes in accounting estimates in the provision for inventories

To ensure the comparability of the Company's accounting information and having considered the level of value impairment of inventories of internationally renowned peer companies, the seventh meeting of the third session of the Board of Directors, pursuant to the accounting principle of prudence, determined that the Company shall make the following changes to the method of provision for inventories with effective on 1 January 2004:

Before the change:

To provide for provision for inventories on the basis of the lower of costs or the net realizable value of each category of inventories and to estimate the net realizable value of all inventories on the basis of the market price of each category of inventories or its related products.

After the change:

To provide for provision of Inventories on the basis of the lower of costs or the net realizable value. For inventories with duration around the average normal turnover of the industry, an estimate will be made on the market price of each category of inventories or its related products. For inventories with duration longer than the average normal turnover of the industry, full provision for inventories will be made on the basis of book value.

As a result of the changes in these accounting estimates, the Company's net profit in 2004 decreased by RMB246,898 and the net assets as at 31 December 2004 decreased by RMB246,898.

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 3: CHANGES OF ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND RECTIFICATION OF ACCOUNTING ERRORS (continued)

### 2. Changes of accounting estimates (continued)

#### (3) Changes in the accounting estimates on the useful lives for depreciation of fixed assets

Pursuant to the requirements on the statutory useful lives of the temporary buildings of the State and Shenzhen Municipal, with the approval of the seventh meeting of the third session of the Board of Directors, the years used for depreciation of the Company's temporary buildings for the workshop of handsets shall be changed from 30 years to 3 years, effective on 1 January 2004.

Based on the evaluation of economic useful lives of electronic equipment and with the approval of the seventh meeting of the third session of the Board of Directors, the years for depreciation for electronic facilities for the general equipment changed from 10 years to 5 years, effective 1 January 2004.

As a result of the change in these accounting estimates, the Company's net profit in 2004 decreased by RMB21,315 and the net assets as at 31 December 2004 decreased by RMB21,315.

#### (4) Change in the accounting estimate method in respect of estimating the work progress for telecommunications systems contracts

The Company adopted the common practice of international companies in the trade, matching with the existing situation of the Company in the management of telecommunications system contracts and related risk control, it was confirmed that the work progress estimate method similar to progress payment previously used can no longer reflect reasonably the actual operations of the Company.

With the approval of the seventh meeting of the third session of the Board of Directors, commencing from 1 January 2004, the estimate method in respect of revenue recognised for telecommunication system contracts changed from the method of estimating the work progress by progress payment as previously adopted to the method of estimating the work progress on the basis of the status of project completed or the percentage of the actual cost incurred to total costs. After the adjustment, the Company's overall progress payment realized would be better comparable with the actual operations of the Company for the period.

As a result of the change in these accounting estimates, the Company's net profit in 2004 increased by RMB434,818 and the net assets as at 31 December 2004 increased by RMB434,818.



# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 3: CHANGES OF ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND RECTIFICATION OF ACCOUNTING ERRORS (continued)

### 3. Rectification of accounting errors

#### (1) Errors in the provision for maintenance of equipment

The Company will generally provide customers with a period of free maintenance of the equipment in the sales of construction of telecommunications system. Prior to 1 January 2004, the Company's provision for maintenance was under-estimated by RMB157,386. The Company made retrospective adjustments to the accounting errors on accrual basis for the period.

As result of the rectification of such accounting error, the Company's net profit in 2003 decreased by RMB56,560 and the net assets as at 31 December 2003 decreased by RMB133,778 and the net assets for the years prior to 2003 decreased by RMB77,218.

#### (2) Errors in the provision for wages and salary payable and welfare benefits payable

The Company has under-estimated the wages expenses for the period prior to 1 January 2004. The Company made retrospective adjustments to the accounting errors on accrual basis for the period.

As a result of the rectification of such accounting error, the Company's net profit in 2003 decreased by RMB28,119 and the net assets as at 31 December 2003 decreased by RMB78,333 and the net assets for the years prior to 2003 decreased by RMB50,214.

#### (3) Rectification of accounting errors in relation to specific grants

In 2000, the Company received specific grants of RMB80,000 made within the State's financial budget, with China Aerospace Science and Technology Corporation as the representative of the contributor of the State's capital funds and entitled to the related interest thereof. As the Company has become a listed company and was unable to represent the interest of the contributor as required in Document Guo Ji (1999) No. 2252, therefore according to the accounting method of "Grants for specific purposes received from the State by an enterprise". The grants were accounted for in the profit and loss account in 2002. During the period, the Company noted such error with prudence in accounting treatment and the financial statements for the prior years have been adjusted accordingly.

As a result of the rectification of such accounting error, the Company's net profit prior to 2003 decreased by RMB80,000 and the net assets in 2003 decreased by RMB80,000.

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 3: CHANGES OF ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND RECTIFICATION OF ACCOUNTING ERRORS (continued)

### 4. Details on the impacts of changes in accounting policies and accounting estimates and of accounting errors

Item		Impact on the opening balance of net assets in 2004	Impact on the net profit for 2004	Impact on the net assets as at 31 December 2004
Changes in accounting policies	Changes in accounting policy for income tax	82,202	40,752	122,954
Changes in accounting estimates	Changes in method of the provision for accounts receivables	-	(346,470)	(346,470)
	Changes in the method of the provision for other receivables	-	(126,776)	(126,776)
	Changes in the method of the provision for accounts prepaid	-	7,299	7,299
	Change in the method of the provision for inventories	-	(246,898)	(246,898)
	Change in the useful lives for depreciation of fixed assets	-	(21,315)	(21,315)
	Changes in accounting estimates in respect of revenue recognised using percentage of completion method for telecommunication system contracts	-	434,818	434,818
	Subtotal	-	(299,342)	(299,342)
Rectification of accounting errors	Adjustments to accounting errors of maintenance costs	(133,778)	-	-
	Wages and salary and benefits payable	(78,333)	-	-
	Accounting for specific grants	(80,000)	-	-
	Subtotal	(292,111)	-	-
Total		(209,909)	(258,590)	(176,388)

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 4: TAXATION

The principal tax and tax rate applicable to each units of the consolidated financial statements is as follows:

Item	Basis for calculation of tax	Tax rate
Value-added tax	Sales revenue for domestic produced products	17%
Value-added tax	Maintenance of equipment	17%
Business tax	Leasing revenue	3%, 5%
Urban maintenance and construction tax	VAT, business tax	7%, 1%
Additional contribution to education	VAT, business tax	3%
Price adjustment and control fund* 1	Business tax	1.5%
Enterprise income tax* 2	Taxable income	7.5%, 15%, 33%
Individual income tax	Taxable income	Excessive progressive rate

\* 1 "Price adjustment and control fund" refers to the amount payable by Shanxi Zhongxing Telecom Equipment Company, Limited pursuant to the requirements of "Notice for perfecting the management work for the collection of price adjustment and control fund" (Document Jin Zhen Fa (1995) No. 71) issued by the People's Government of Shanxi. Pursuant to the requirements, any unit and individual which generate a revenue for the production operations engaged in Shanxi shall make contribution to the price adjustment and control fund, calculated at 1.5% of sales tax, value-added tax and business tax.

\*2 The Company was registered in Shenzhen SEZ and the applicable enterprise income tax rate is 15%.

Pursuant to the permission under the "Reply of Exemption of Corporate Income Tax entitled by ZTE Kangxun Telecom Company, Limited" issued by the local tax bureau in Shenzhen (Document Shen Di Fa (2001) No. 1030), the Company was awarded the status of high-tech enterprise in August 2001, and the Company is entitled to a 50% reduction for enterprise income tax for another three years (2002-2004) and the enterprise income tax rate for the year is 7.5%.

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Yan Jian Mian (2005) No. 004) issued by the Shenzhen State Tax Bureau, it is agreed that ZTE Microelectronics Technology Co. Ltd., as a enterprise, is entitled to enterprise income tax exemption in the first and second profitable year and is entitled to 50% reduction in enterprise income tax from the third to fifth year. The current year is the first profitable year and is exempted for enterprise income tax.

Pursuant to the "Requirements on the tax policy of State's high-tech Industrial Development Zone", Shanxi Zhongxing Telecom Equipment Company, Limited is subject to an enterprise income tax rate of 15%.

The enterprise income tax rate applicable to ZTEIC Design Co., Ltd. is 15%, and it is entitled to the preferential treatment of "Two waive; Three half" commencing from the first profitable year and the Company has not yet made any profit.

Wuxi Zhongxing Optoelectronics Technologies Company, Limited was registered at Wuxi State's High-tech Industrial Development Zone, it is subject to an enterprise income tax rate of 15%.

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 4: TAXATION (continued)

Pursuant to the regulations under Document Ke Gao (2002) No. 21 issued by the Science and Technology Department of Anhui, the Finance Department of Anhui, the Regional Tax Bureau of Anhui, Anhui Wantong Posts and Telecommunications Company, Limited is entitled to the enterprise income tax preferential treatment as enjoyed by high-tech enterprises. The enterprise income tax is subject to refund and the tax rate and the refund rate of which are 33% and 18% respectively and the actual tax rate is 15%.

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Nan Zi (2005) No. 0034) issued by the Nanshan State Tax Bureau in Shenzhen, it is agreed that Shenzhen ZTE Software Company, Limited, as a software enterprise, is entitled to enterprise income tax exemption in the first and second profitable year and the current year is the second profitable year and is exempted for enterprise income tax.

Yangzhou Zhongxing Mobile Telecom Equipment Co., Limited and Nanjing Zhong Xing Software Development Technology Co., Ltd. are subject to an enterprise income tax rate of 33%.

ZTE Mobile Tech Co., Ltd., Shenzhen Guoxing Electronics Development Company Limited, Shenzhen Zhongxing Special Equipment Company, Limited, ZTE Integration Telecom Ltd., Shenzhen Changfei Investment Company, Limited, Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited and Shenzhen Zhongxing Mobile Telecom Equipment Co., Ltd. are subject to an enterprise income tax rate of 15%.

Shanghai Zhongxing Telecom Equipment Technology & Service Company, Limited and Guangdong New Pivot Technology & Service Company, Limited are subject to an enterprise income tax rate of 33%.

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 5. CONTROLLING SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES

### 1. Particulars of subsidiaries controlled by the Company and jointly-controlled entities and scope of consolidation

Full name of controlling subsidiaries and jointly-controlled entities	Place of registration	Registered capital	Percentage of equity interests owned by the Company			Investment by the Company	Principal activities	Included in scope of consolidation
			Direct	Indirect	Effective			
ZTE Kangxun Telecom Co., Ltd.	Shenzhen	RMB50,000	90%	-	90%	RMB45,000	Manufacture of electronics products and related parts (excluding restricted items)	Yes
ZTE MicroelectronicsTechnology Co. Ltd.	Shenzhen	RMB15,000	-	90%	90%	RMB13,500	Design, manufacture and sale of integrated circuit products	Yes
Shanxi Zhongxing Telecom Equipment Company, Limited	Taiyuan	RMB8,000	51%	-	51%	RMB4,080	Development of science & technology, development of computer softwares and hardwares; integration of computer network systems; subcontracting maintenance and training of technical services; manufacture and sale of communications equipment	Yes
Zhongxing Telecom Pakistan (Private) Limited	Islamic Republic of Pakistan	PKR10,000	93%	-	93%	USD200	Assembling and manufacture of digital remote control switch	Yes
Shenzhen Zhongxing Mobile Telecom Equipment Co., Ltd.	Shenzhen	RMB10,000	90%	10%	100%	RMB10,000	Research, manufacture and sale of CDMA digital mobile communications system equipment and related products	Yes
ZTEIC Design Co., Ltd.	Shenzhen	RMB50,000	60%	-	60%	RMB30,000	Design, development, manufacture and operation of all kinds of integrated circuits and related electronics application products	Yes
Yangzhou Zhongxing Mobile Telecom Equipment Co., Limited	Yangzhou	RMB6,000	65%	-	65%	RMB3,900	R&D, manufacture and sale of electronics, computer and communications products	Yes

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 5. CONTROLLING SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES (continued)

### 1. Particulars of subsidiaries controlled by the Company and jointly-controlled entities and scope of consolidation (continued)

Full name of controlling subsidiaries and jointly-controlled entities	Place of registration	Registered capital	Percentage of equity interests owned by the Company			Investment by the Company	Principal activities	Included in scope of consolidation
			Direct	Indirect	Effective			
ZTE Mobile Tech Co., Limited	Shenzhen	RMB33,333	95%	—	95%	RMB31,666	Technical development and sale of communications products; manufacture of handset batteries, hands-free ear piece; manufacture of handset charger	Yes
Congo-Chine Telecom S.A.R.L.	The Democratic Republic of Congo	USD9,800	51%	—	51%	USD5,000	Construction of telephone network in Congo, provision of telecom services and manufacture of communications equipment	Yes
Nanjing Zhong Xing Software Development Technology Co., Ltd.	Nanjing	USD7,231	81%	—	81%	RMB25,560	Development, manufacture and sale of software products, communications equipment, data equipment and provision of related services	Yes
Shenzhen Zhongxing Software Company, Limited	Shenzhen	RMB50,000	90%	—	90%	RMB45,000	Development, manufacture and sale of all kinds of communications equipment system drivers, softwares for the service sector, and provision of technical consultation	Yes
Shenzhen Guoxin Electronics Development Company, Limited	Shenzhen	RMB13,000	90%	10%	100%	RMB33,000	Purchase and sale of electronics components; domestic businesses, supply and sale of materials; promotion of a variety of industries	Yes
Wuxi Zhongxing Optoelectronics Technologies Company, Limited	Wuxi	RMB10,000	65%	—	65%	RMB5,200	Development of optoelectronics technologies and manufacture and sale of related products and provision of technical services	Yes

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 5. CONTROLLING SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES (continued)

### 1. Particulars of subsidiaries controlled by the Company and jointly-controlled entities and scope of consolidation (continued)

Full name of controlling subsidiaries and jointly-controlled entities	Place of registration	Registered capital	Percentage of equity interests owned by the Company			Investment by the Company	Principal activities	Included in scope of consolidation
			Direct	Indirect	Effective			
Shenzhen Force Science and Technology Company, Limited	Shenzhen	RMB3,000	-	80%	52%	RMB2,400	Development of optoelectronics technologies and manufacture and sale of related products and provision of technical services	Yes
WuXi KaiEr Science and Technology Company, Limited	Wuxi	RMB10,000	-	35%	22.75%	RMB5,200	R&D and manufacture of optoelectronics products, development of optoelectronics technologies, sale of self-produced products and provision of related services	No
Anhui Wantong Posts and Telecommunications Company, Limited	Hefei	RMB22,214	51%	-	51%	RMB15,697	Manufacture of communications wireline equipment and accessories, PDF and switch equipment, manufacture and installation of towers, and design and installation of communications projects	Yes
Anhui Wantong Information System Integration Company, Limited	Hefei	RMB3,000	-	51%	26.01%	RMB1,530	Design and installation of communications projects	Yes
Anhui Wantong Tower Installation Company, Limited	Hefei	RMB2,000	-	90%	45.9%	RMB1,800	Installation of towers	Yes
ZTE (H.K.) Limited	Hong Kong	HKD50,000	100%	-	100%	HKD50,000	Procurement and sale of communications products and provision of technical services	Yes
Bestel Communications ID.	Republic of Cyprus	CYP300	-	50%	50%	CYP150	Sale of communications products and provision of after-sale services	No

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 5. CONTROLLING SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES (continued)

### 1. Particulars of subsidiaries controlled by the Company and jointly-controlled entities and scope of consolidation (continued)

Full name of controlling subsidiaries and jointly-controlled entities	Place of registration	Registered capital	Percentage of equity interests owned by the Company			Investment by the Company	Principal activities	Included in scope of consolidation
			Direct	Indirect	Effective			
ZTE Portugal Co., Ltd	Portugal	EUR050	-	100%	100%	EUR050	Sale of communications products and provision of after-sale services	Yes
Beijing Zhongxing Telecom Ltd.	Beijing	RMB5,000	50%	-	50%	RMB2,500	Sale of communications equipment (excluding radio transmitter), electronics computer and related external devices, and provision of technical consultation services	No*
Beijing Zhongxing Intelligent Transportation Systems Ltd.	Beijing	RMB5,000	-	70%		RMB3,500	Development, consultation, and assignment of intelligent transportation technologies and provision of related services and trainings	No
ZTE (USA) Inc.	Edison, United States of America	USD20	100%	-	100%	USD650	Sale of communications products	Yes
ZTE Future Tel Co., Ltd.	Republic of Korea	KRW427,550	54.14%	-	54.14%	USD3,250	Development of handset products and design and research of integrated circuit	Yes
Shenzhen Special Equipment Company, Limited	Shenzhen	RMB1,000	54%	-	54%	RMB540	Technical development, services, consultation and purchase and sale of communications products	Yes
Telrise (Cayman) Tel Co., Ltd.	Cayman Islands	USD50	52.85%	-	52.85%	USD1,900	R&D of softswitch technologies	Yes
Telrise (USA) INC.	Cayman Islands	USD1,609	-	100%	52.85%	USD1,609	R&D of softswitch technologies	Yes
Telrise Nanjing Telecom Limited	Nanjing	USD100	-	100%	52.85%	USD100	R&D of softswitch technologies	Yes



# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 5. CONTROLLING SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES (continued)

### 1. Particulars of subsidiaries controlled by the Company and jointly-controlled entities and scope of consolidation (continued)

Full name of controlling subsidiaries and jointly-controlled entities	Place of registration	Registered capital	Percentage of equity interests owned by the Company			Investment by the Company	Principal activities	Included in scope of consolidation
			Direct	Indirect	Effective			
ZTE (UK) Ltd.	London, United Kingdom	GBP400	51%	-	51%	USD372	Sale of communications products and provision of after-sale services and technical support	Yes
ZTE Do Brasil LTDA.	Brazil	BRL3,500	100%	-	100%	USD900	Sale of communications products and provision of after-sale services and technical support	Yes
ZTE Holdings (Thailand) CO., Ltd	Thailand	THB100	49%	-	49%	THB49	Investment holding	Yes**
ZTE (Thailand) CO., Ltd	Thailand	THB2,000	49%	51%	100%	THB980	Sale of communications products and provision of after-sale services and technical support	Yes
ZTE Corporation De Mexico	Mexico	USD5	100%	-	100%	USD28	Sale of communications products and provision of after-sale services and technical support	Yes
ZTE Integration Telecom Ltd.	Shenzhen	RMB55,000	75%	5%	80%	RMB41,250	Research and manufacture, production and sale of digital integrated system products and provision of related consultation services	Yes
ZTEIT USA Inc.	United States of America	USD950	-	100%	100%	USD475	Design and development of all kinds of communications products	Yes
ZTE-Communication Technologies, Ltd.	Russia	USD50	100%	-	100%	USD950	Sale of communications products and provision of after-sale services and technical support	Yes

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 5. CONTROLLING SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES (continued)

### 1. Particulars of subsidiaries controlled by the Company and jointly-controlled entities and scope of consolidation (continued)

Full name of controlling subsidiaries and jointly-controlled entities	Place of registration	Registered capital	Percentage of equity interests owned by the Company			Investment by the Company	Principal activities	Included in scope of consolidation
			Direct	Indirect	Effective			
ZTE Wistron Telecom AB	Sweden	SEK100	100%	-	100%	USD3,137	Operation of telecommunications related businesses as R&D base and technical support platform of the sector	Yes
Shenzhen Changfei Investment Company, Limited	Shenzhen	RMB30,000	51%	-	51%	RMB15,300	Investment and promotion of industries, and sale of electronics and communications parts and components	Yes
Shenzhen Lead Communications Company, Limited	Shenzhen	RMB10,000	-	62.5%	31.88%	RMB6,250	Sale of electronics products, communications products, apparatus and instruments and related accessories	Yes
Shenzhen Ruide Electronic Industrial Company, Limited	Shenzhen	RMB8,700	-	63.22%	32.24%	RMB5,500	Manufacture and sale of handset accessories; sale of electronics products; operation of I/E businesses	Yes
Shenzhen Kangquan Electromechanical Company, Limited	Shenzhen	RMB16,000	-	57.5%	29.33%	RMB9,200	Manufacture and sale of handset case and accessories; purchase and sale of electromechanical products; self operation of I/E businesses	Yes
Shanghai Xingfei Science and Technology Company, Limited	Shanghai	RMB1,000	-	80%	40.8%	RMB800	Four skill services of the electronics products sector; manufacture, sale and after-sale services of electronics products, and corporate management consultation (subject to license where a license is required)	Yes

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 5. CONTROLLING SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES (continued)

### 1. Particulars of subsidiaries controlled by the Company and jointly-controlled entities and scope of consolidation (continued)

Full name of controlling subsidiaries and jointly-controlled entities	Place of registration	Registered capital	Percentage of equity interests owned by the Company			Investment by the Company	Principal activities	Included in scope of consolidation
			Direct	Indirect	Effective			
Shenzhen Zhongxing Xinyu FPC Company, Limited	Shenzhen	RMB11,000		9%		RMB2,500	Development, manufacture and sale of single-layered, double-layered, multi-layered and rigid-flexible relexible printed integrated circuits; I/E of goods and technologies (excluding items prohibited and restricted under the laws, constitutions and as decided by the State Council)	No
Shenzhen Weigao Semiconductor Company, Limited	Shenzhen	RMB10,000		40%		RMB4,000	Development, design and sale of semi-conductor circuit package; domestic business and supply of materials and resources (excluding franchised, state-controlled and monopolized merchandises and restricted items); promotion of industries (separate declaration is required for specific items)	
Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited	Shenzhen	RMB50,000	90%	10%	100%	RMB50,000	Technical development of computer networks, softwares, electronics equipment and communications products; domestic supply and sale of materials and resources; information consultancy	Yes

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 5. CONTROLLING SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES (continued)

### 1. Particulars of subsidiaries controlled by the Company and jointly-controlled entities and scope of consolidation (continued)

Full name of controlling subsidiaries and jointly-controlled entities	Place of registration	Registered capital	Percentage of equity interests owned by the Company			Investment by the Company	Principal activities	Included in scope of consolidation
			Direct	Indirect	Effective			
Shanghai Zhongxing Telecom Equipment Technology & Service Company, Limited	Shanghai	RMB10,000	51%	—	51%	RMB5,100	R&D of communications technologies, design, research, development, manufacture and sale of softwares and hardwares for communications products and provision of related technical services	Yes
Guangdong New Pivot Technology & Service Company, Limited	Guangzhou	RMB5,000	90%	—	90%	RMB4,500	Development, design and integration of computer softwares and hardwares and data equipment, and sale and technical assignment of related products and provision of related services	Yes
Beijing Zhongxing Yuanjing Technology Co., Ltd.	Beijing	RMB10,000	30%	—	30%	RMB3,000	Development and research manufacture of data centre and metropolitan/Campus networks integrated core software products	No
SunTop Technologies Ltd.	Cayman Islands	USD50	26.54%	—	26.54%	USD3	Within the scope as permitted under the laws of Cayman Islands	No
Closed Joint Stock Company TK Mobile	Tadzhikistan	USD4,000	51%	—	51%	RMB16,871	Manufacture of CDMA800 mobile voice and related value-added services, maintenance of CDMA telecom networks and provision of consultation services	Yes
ZTE Kangxun Telecom Company India (Private) Ltd.	India	USD22.222	100%	—	100%	RMB1,654	Assembling and integration of telecom systems equipment and terminal equipment in India; investment in and establishment of local manufacturing joint-venture	Yes

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 5. CONTROLLING SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES (continued)

### 1. Particulars of subsidiaries controlled by the Company and jointly-controlled entities and scope of consolidation (continued)

Full name of controlling subsidiaries and jointly-controlled entities	Place of registration	Registered capital	Percentage of equity interests owned by the Company			Investment by the Company	Principal activities	Included in scope of consolidation
			Direct	Indirect	Effective			
ZTE ROMANIA SRL	Romania	USD100	100%	-	100%	RMB827	Sale and marketing of the Company's products in Romania and provision of corresponding engineering, after-sale services, technical support, consultation and trainings	Yes
ZTE MALAYSIA CORPORATION SDN. BHD.	Malaysia	USD60	100%	-	100%	RMB496	Sale and marketing of the Company's products in Malaysia and provision of corresponding engineering, after-sale services, technical support, consultation and trainings	Yes
ZiMax (Cayman) Holding Ltd.	Cayman Islands	USD2,500	100%	-	100%	RMB20,675	R&D investment in all kinds of communications products	Yes
KAZNURTEL Limited Liability Company	Kazakstan	USD3,000	49%	-	49%	RMB1,013	Manufacture and sale of telecom equipment and provision of corresponding technical support, after-sale services, trainings and consultation; installation and construction of CDMA450MWLL and provision of corresponding telecom services and value-added services	No

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 5. CONTROLLING SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES (continued)

### 1. Particulars of subsidiaries controlled by the Company and jointly-controlled entities and scope of consolidation (continued)

- \* During the period, the Company had not exercised effective control over Beijing Zhongxing Telecom Ltd., therefore the company had not been included in the scope of consolidation for the financial statements. As its impact on the consolidated financial statements was relatively insignificant, during the period, no adjustment had been made to the balance at the beginning of the period.
- \*\* The Company holds a 49% stake in ZTE Holdings (Thailand) Co. Ltd, however, as covenanted under the articles of association of the company, another shareholder of the company is a holder of preference shares and has no operation or administrative rights over the company. Pursuant to Reply to the Request on the Scope of Financial Statements Consolidation Document Cai Kuai Er Zi (1996) No.2 issued by Ministry of Finance, the company is included in the scope of consolidation of the Company based on the effective control principle.

### 2. Changes in the scope of consolidation during the period:

Company name		Change	Reason
Shenzhen Changfei Investment Company, Limited	*1	Increase	Newly incorporated
Shenzhen Lead Communications Company, Limited	*2	Increase	Stake acquisition, capital increase
Shenzhen Ruide Electronic Industrial Company, Limited	*3	Increase	Newly incorporated
Shenzhen Kangquan Electromechanical Company, Limited	*4	Increase	Stake acquisition, capital increase
Shenzhen ZhongxingTelecom Equipment Technology & Service Company, Limited	*5	Increase	Newly incorporated
Shanghai ZhongxingTelecom Equipment Technology & Service Company, Limited	*6	Increase	Newly incorporated
Guangdong New Pivot Technology & Service Company, Limited	*7	Increase	Newly incorporated
ZTEIT USA Inc.	*8	Increase	Newly incorporated
Closed Joint Stock Company TK Mobile	*9	Increase	Newly incorporated
ZTE Kongxun Telecom Company India (Private) Ltd.	*10	Increase	Newly incorporated
ZTE ROMANIA SRL	*11	Increase	Newly incorporated
ZTE MALAYSIA CORPORATION SDN. BHD.	*12	Increase	Newly incorporated
ZiMax (Cayman) Holding Ltd.	*13	Increase	Newly incorporated
Beijing Zhongxing Telecom Ltd.	*14	Decrease	Effective control unexercised

- \*1 In February 2004, the board of directors of the Company passed a resolution in relation to the investment in and establishment of Shenzhen Changfei Investment Company, Limited. Registered capital of the company is RMB30,000, in which the Company made a cash contribution of RMB15,300 and holds a 51% stake in the shares of the company. Shenzhen Changfei Investment Company, Limited was duly established on 6 February 2004.

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All amounts in '000, unless as otherwise stated

## NOTE 5. CONTROLLING SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES (continued)

### 2. Changes in the scope of consolidation during the period: (continued)

- \*2 On 25 March 2004, Shenzhen Changfei Investment Company, Limited a subsidiary of the Company, signed an agreement with the shareholders of Shenzhen Lead Communications Company, Limited, to acquire a 35% stake in Shenzhen Lead Communications Company, Limited for a cash consideration of RMB1,750 (costing method: the acquisition cost was calculated on an 1:1 basis based on the registered capital of Shenzhen Lead Communications Company, Limited of RMB5,000 as at the date of acquisition). In April 2004, Shenzhen Changfei Investment Company, Limited increased the capital of Shenzhen Lead Communications Company, Limited by RMB4,500 in cash; other shareholders of Shenzhen Lead Communications Company, Limited increased the capital of Shenzhen Lead Communications Company, Limited by RMB500 in cash. After the capital increase, the registered capital of Shenzhen Lead Communications Company, Limited has been changed to RMB10,000, in which Shenzhen Changfei Investment Company, Limited holds a 62.5% stake in its shares. The alteration formalities for industrial and commercial registration have been completed on 20 April 2004.
- \*3 In April 2004, Shenzhen Changfei Investment Company, Limited and ZTEIC Design Co., Ltd., both being subsidiaries of the Company, invested to establish Shenzhen Ruide Electronic Industrial Company, Limited. Registered capital of the company is RMB8,700, in which Shenzhen Changfei Investment Company, Limited made a cash contribution of RMB5,000 and holds a 57.47% stake in the shares of the company; and ZTEIC Design Co., Ltd. made a cash contribution of RMB500 and holds a 5.75% stake in the shares of the company. Shenzhen Ruide Electronic Industrial Company, Limited was duly established on 27 April 2004.
- \*4 On 20 March 2004, Shenzhen Changfei Investment Company, Limited a subsidiary of the Company, signed an agreement with the shareholders of Shenzhen Kangquan Electromechanical Company, Limited, to acquire a 20% stake in Shenzhen Kangquan Electromechanical Company, Limited for a cash consideration of RMB1,600 (costing method: the acquisition cost was calculated on an 1:1 basis based on the registered capital of Shenzhen Kangquan Electromechanical Company, Limited of RMB8,000 as at the date of acquisition). In April 2004, Shenzhen Changfei Investment Company, Limited increased the capital of Shenzhen Kangquan Electromechanical Company, Limited by RMB7,600 in cash; other shareholders of Shenzhen Kangquan Electromechanical Company, Limited increased the capital of Shenzhen Kangquan Electromechanical Company, Limited by RMB400 in cash. After the capital increase, the registered capital of Shenzhen Kangquan Electromechanical Company, Limited has been changed to RMB16,000, in which Shenzhen Changfei Investment Company, Limited holds a 57.5% stake in its shares. The alteration formalities for industrial and commercial registration have been completed on 15 June 2004.
- \*5 On 7 April 2004, the board of directors of the Company passed a resolution in relation to the investment in and establishment of Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited. Registered capital of the company is RMB50,000, in which the Company made a cash contribution of RMB45,000 and holds a 90% stake in the shares of the company; and ZTE Kangxun Telecom Co., Ltd., a subsidiary of the Company, made a cash contribution of RMB5,000 and holds a 10% stake in the shares of the company. Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited was duly established on 17 May 2004.
- \*6 In April 2004, the board of directors of the Company passed a resolution in relation to the investment in and establishment of Shanghai Zhongxing Telecom Equipment Technology & Service Company, Limited. Registered capital of the company is RMB10,000, in which the Company made a cash contribution of RMB5,100 and holds a 51% stake in the shares of the company. Shanghai Zhongxing Telecom Equipment Technology & Service Company, Limited was duly established on 10 May 2004.
- \*7 In January 2004, the board of directors of the Company passed a resolution in relation to the investment in and establishment of Guangdong New Pivot Technology & Service Company, Limited. Registered capital of the company is RMB5,000, in which the Company made a cash contribution of RMB4,500 and holds a 90% stake in the shares of the company. Guangdong New Pivo Technology & Service Company, Limited was duly established on 27 February 2004.

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All amounts in '000, unless as otherwise stated

## NOTE 5. CONTROLLING SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES (continued)

### 2. Changes in the scope of consolidation during the period: (continued)

- \*8 On 2 December 2003, as approved pursuant to Document [2003] Shang He Pi No.482 issued by Ministry of Commerce, the People's Republic of China, ZTEIT USA Inc. was proposed to be established by ZTE Integration Telecom Ltd., a subsidiary of the Company, in the United States of America with its permitted total investment and registered capital both being USD950. ZTE Integration Telecom Ltd. will hold a 100% stake in the company. ZTE Integration Telecom Ltd. contributed the first installment in the amount of USD95 in June 2004. ZTEIT USA Inc. was duly established in June 2004.
- \*9 As approved by the board of directors of the Company and pursuant to Certificate of Approval [2003] Shang He Qi Zheng Zi No.264 issued by Ministry of Commerce, the People's Republic of China and Document Shen Wai Jing Mao Jing [2003] No.155 issued by Bureau of Foreign Trade and Economic Cooperation of Shenzhen Municipality, Closed Joint Stock Company TK Mobile was proposed to be established by the Company in Tadjikistan with a registered capital of USD2,950 and a total investment of USD3,150, in which the Company intends to made a contribution by way of injecting CDMA800 equipment produced by the Company at a price of USD1,505 and hold a 51% stake in the company; another shareholder of the company intends to make a contribution by way of injecting the business license, office premise, and towers at a price of USD1,446 and hold a 49% stake in the company. TK MOBILE 股份有限公司 was duly established in July 2004.
- \*10 As approved by the board of directors of the Company and pursuant to Documents Shen Fa Gai[2004] No.148 issued by Bureau of Economic and Trade of Shenzhen Municipality and Shen Wai Jing Mao Jing [2004] No.24 issued by Bureau of Foreign Trade and Economic Cooperation of Shenzhen Municipality, ZTE Kongxun Telecom Company India (Private) Ltd. was established by the Company in India with a registered capital of USD22 and a total investment of USD200, in which the Company intends to make a contribution of USD200 and hold a 99.99989% stake in the shares of the company; and ZTE Kangxun Telecom Co., Ltd., a subsidiary of the Company, intends to contribute USDO.22 and hold a 0.00011% stake in the shares of the company. ZTE Kongxun Telecom Company India (Private) Ltd. was duly established in July 2004.
- \*11 As approved by the board of directors of the Company and pursuant to Documents [2004] Shang He Qi Zheng Zi No.321 issued by Ministry of Commerce, the People's Republic of China and Shen Zi Gong Wai Jing Han [2004] No.331 issued by Shenzhen Bureau of Trade and Industry, ZTE ROMANIA SRL was established by the Company in Romania with a registered capital of USD100 and a total investment of USD100, in which the Company has made a contribution of USD100 and holds a 100% stake in the shares of the company. ZTE ROMANIA SRL was duly established in August 2004.
- \*12 As approved by the board of directors of the Company and pursuant to Documents Shen Fa Gai[2004] No.274 issued by Bureau of Economic and Trade of Shenzhen Municipality, Shen Mao Gong Wai Jing Han [2004] No.285 issued by Shenzhen Bureau of Trade and Industry and Shen Wai Guan [2004] No.50 issued by State Administration of Foreign Exchange Shenzhen Bureau, ZTE MALAYSIA CORPORATION SDN. BHD. was established by the Company in Malaysia with a registered capital of USD60 and a total investment of USD60, in which the Company has made a cash contribution of USD60 and holds a 100% stake in the shares of the company. ZTE MALAYSIA CORPORATION SDN. BHD. was duly established in July 2004.
- \*13 As approved by the board of directors of the Company and pursuant to Documents [2004] Shang He Qi Zheng Zi No.166 issued by Ministry of Commerce, the People's Republic of China, Shen Wai Guan [2004] No.50 issued by State Administration of Foreign Exchange Shenzhen Bureau and Shen Zi Gong Wai Jing Han [2004] No.16 issued by Shenzhen Bureau of Trade and Industry, ZiMax (Cayman) Holding Ltd. was established by the Company in Cayman Islands with registered capital of USD2,500, in which the Company has made a total investment of USD2,500 and holds a 100% stake in the shares of the jointly-owned company. ZiMax (Cayman) Holding Ltd. was duly established in May 2004.
- \*14 The company had not been included in the scope of consolidation for the financial statements as no effective control had been exercised over it during the period.



# NOTES TO THE FINANCIAL STATEMENTS

[Prepared under PRC GAAP]

All amounts in '000, unless as otherwise stated

## NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED)

### Explanatory note 1. Cash in banks and on hands

Item	Balance at the end of the period			Balance at the beginning of the period			
	Original currency	Conversion rate	RMB equivalent	Original currency	Conversion rate	RMB equivalent	
Cash	RMB	366	1.0000	366	749	1.0000	749
	HKD	353	1.0603	389	114	1.0657	122
	USD	1,625	8.2705	13,481	143	8.2767	1,187
	GBP	2	15.91	27	2	14.7100	33
	JPY	151	0.0807	11	24	0.0773	2
	NGN	-	-	-	280	0.0939	26
	CDF	15,018	0.0157	282	1,393	0.0317	44
	BRL	72	2.8899	224	77	2.8737	221
	PKR	456	0.1495	68	43	0.1441	6
	others			16			
	Sub-total			14,864			2,390
Bank deposits	RMB	2,081,252	1.0000	2,081,252	2,562,847	1.0000	2,562,847
	RUR	1,928	0.2996	578	-	-	-
	HKD	2,910,758	1.0603	3,086,167	63,085	1.0657	67,230
	USD	219,675	8.2750	1,815,532	116,636	8.2767	965,364
	JPY	308,288	0.0807	22,380	56,236	0.0773	4,347
	SEK	1,640	1.1290	1,852	836	1.1436	956
	GBP	170	15.91	2,496	-	-	-
	BRL	41,913	2.8899	130,768	903	2.8737	2,596
	THB	2,088	0.2068	432	4	0.2087	0.94
	PKR	215,941	0.1495	32,278	610,610	0.1441	87,984
	KRW	24,000	0.0080	192	-	-	-
	MXP	643	0.7372	474	254	0.7386	188
	EGP	12,947	1.3482	17,454	-	-	-
	INR	23,129	0.1861	4,305	-	-	-
	EUR	6,696	11.2627	74,380	2,383	10.3400	24,640
	MYR	11	31.4260	335	-	-	-
	ROL	121,142	0.0066	794	-	-	-
	AVD	66	6.1480	282	-	-	-
	TJR	37	2.7231	101	3,845	0.0270	104
	CDF	85,935	0.0157	1,615	-	-	-
	Sub-total			7,273,667			3,716,256

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

### Explanatory note 1. Cash in banks and on hands (continued)

Item	Balance at the end of the period			Balance at the beginning of the period		
	Original currency	Conversion rate	RMB equivalent	Original currency	Conversion rate	RMB equivalent
Other monetary funds						
RMB	304,656	1.0000	304,656	2,113	1.0000	2,113
HKD	-	1.0603	-	258	1.0657	276
PKR	24,741	0.1495	3,698	-	-	-
USD	118	8.2705	977	7,688	8.2767	63,633
JPY	-	0.0807	-	24	14.7100	354
SEK	320	1.1290	361	-	-	-
Sub-total			309,692			66,376
Total			7,598,223			3,785,022

\* Balance of cash in banks and on hands of the Company as at the end of the period increased by RMB3,813,201 accounting for 100.74% of growth rate as compared to the end of last year, mainly due to the total proceeds of approximately RMB3.7 billion received in December 2004 raised from the overseas public offering of foreign-invested shares (H Shares) during the period.

\*\* There is outstanding balance at the amount of PKR26,845,294 (in equivalent RMB4,013) for mortgage in cash in banks and on hands at the end of the period.

### Explanatory note 2. Notes receivable

Type	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance bills	743,356	805,097
Commercial acceptance bills	1,514,732	1,834,869
Total	2,258,088	2,639,966

\* The discounted and immature commercial bills amounted to RMB440,885. The Company is obligated to repay the indebtedness in case the debtors fail to do so.

### Explanatory note 3. Accounts receivable

Particulars of consolidated amounts of accounts receivable are set out as follows:-

Ageing	Balance at the end of the period			Balance at the beginning of the period		
	Amount	Percentage of the total amount	Provision for bad debts	Amount	Percentage of the total amount	Provision for bad debts
Within one year	3,513,954	86.08%	124,909	1,739,514	77.91%	11,102
Between one to two years	420,742	10.31%	224,275	203,501	9.11%	6,609
Between two to three years	113,999	2.79%	67,346	70,891	3.18%	2,602
Over three years	33,416	0.82%	13,075	218,733	9.80%	57,157
Total	4,082,111	100%	429,605	2,232,639	100%	77,470

# NOTES TO THE FINANCIAL STATEMENTS

[Prepared under PRC GAAP]

All amounts in '000, unless as otherwise stated

## NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

### Explanatory note 3. Accounts receivable (continued)

- \* Balance of accounts receivable of the Group as at the end of the period increased by RMB1,849,472 or 82.84%, as compared to the end of last year, mainly due to a corresponding increase in the outstanding balance of accounts receivable as a result of expansion of the Company's operations and increase in sales.
- \*\* Of the balance of accounts receivable as at 31 December 2004, the top five outstanding amounts of accounts receivable amounted to RMB1,659,230, accounting for 40.65% of the total accounts receivables.
- \*\*\* Reason for the decrease in the amount of provision for bad debts with an ageing of over three years as at the end of the period is that of the accounts receivable with an ageing of over three years, an amount of RMB14,228 is guaranteed by bank usance credit and according to the repayments made during the last few years, repayments have been made by the debtors strictly in compliance with the schedules as covenanted under the contracts. Therefore, no provision for bad debts was made by the Company for such portion of accounts receivables.
- \*\*\*\* No outstanding amount due from shareholders holding 5% or more in the shares as at the end of the period.
- \*\*\*\* The amount receivable from shareholders holding 5% or more in the shares was RMB169 at the end of period. Please refer to Note 7 "Relationship and transactions with related parties".

Particulars of Company amounts of accounts receivable are set out as follows:–

Ageing	Balance at the end of the period			Balance at the beginning of the period		
	Amount	Percentage of the total amount	Provision for bad debts	Amount	Percentage of the total amount	Provision for bad debts
Within one year	3,887,109	87.61%	123,773	1,913,953	75.17%	10,704
Between one to two years	410,416	9.25%	216,698	344,818	13.54%	5,891
Between two to three years	110,457	2.49%	67,244	69,430	2.73%	2,390
Over three years	28,946	0.65%	12,883	217,973	8.56%	57,091
Total	4,436,928	100%	420,598	2,546,174	100%	76,076

- \* Balance of accounts receivable of the Company as at the end of the period increased by RMB1,890,754 accounting for 74.26% as compared to the end of last year, mainly due to a corresponding increase in the amount of receivable as a result of expansion of the Company's operations and increase in sales.
- \*\* Of the balance of accounts receivable as at 31 December 2004, the top five outstanding amounts of accounts receivable amounted to RMB1,971,462, accounting for 44.43% of the total accounts receivable.
- \*\*\* Reason for the decrease in the amount of provision for bad debts with an ageing of over three years as at the end of the period is that of the accounts receivable with an ageing of over three years, an amount of RMB14,228 is guaranteed by letter of bank usance credit and according to the repayments made during the last few years, repayments have been made by the debtors strictly in compliance with the schedules as covenanted under the contracts. Therefore, no provision for bad debts was made by the Company for such portion of accounts receivable.
- \*\*\*\* No outstanding amount due from shareholders holding 5% or more in the shares as at the end of the period.

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(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

### Explanatory note 4. Other receivables

Ageing	Balance at the end of the period			Balance at the beginning of the period		
	Amount	Percentage of the total amount	Provision for bad debts	Amount	Percentage of the total amount	Provision for bad debts
Within one year	291,783	39.69%	175,946	397,369	62.14%	30,732
Between one to two years	271,113	36.88%	137,116	111,959	17.51%	111,912
Between two to three years	42,628	5.80%	41,418	47,337	7.40%	46,772
Over three years	129,564	17.63%	123,013	82,783	12.95%	81,745
Total	735,088	100%	477,493	639,448	100%	271,161

\* No outstanding amount due from shareholders holding 5% or more in the shares as at the end of the period.

Particulars of Company amounts of other receivables are set out as follows:-

Ageing	Balance at the end of the period		
	Amount	Percentage of the total amount	Provision for bad debts
Within one year	781,310	64.92%	166,872
Between one to two years	257,046	21.36%	135,531
Between two to three years	41,667	3.46%	41,156
Over three years	123,527	10.26%	121,808
Total	1,203,550	100%	465,367

\* Outstanding amount due from shareholders holding 5% or more of the Company's shares as at the end of the period see Note 7 Related-party transactions.

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[Prepared under PRC GAAP]

All amounts in '000, unless as otherwise stated

## NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

### Explanatory note 5. Accounts prepaid

Ageing	Balance at the end of the period		Balance at the beginning of the period	
	Amount	Percentage of the total amount	Amount	Percentage of the total amount
Within one year	145,151	99.83%	147,039	100%
Between one to two years	247	0.17%	-	-
Over two years	-	-	-	-
Total	145,398	100%	147,039	100%

\* No outstanding amount due from shareholders holding 5% or more in the shares as at the end of the period.

### Explanatory note 6. Inventories and provision for inventories

Type	Balance at the end of the period		Balance at the beginning of the period	
	Carrying balance	Provision	Carrying balance	Provision
Raw materials	1,304,417	86,161	1,075,825	65,290
Work-in-progress	356,899	-	176,249	1,990
Finished goods	575,071	333,612	235,763	7,227
Materials for construction-in-progress	1,404,003	170,094	-	-
Dispatch goods	1,552,992	172,651	3,382,176	207,680
Science and technology R&D cost*	146,700	-	113,957	-
Others	66,194	-	2,613	-
Total	5,406,276	762,518	4,986,583	282,187

\* In accordance with the provision under Document Cai Kuai Bian [2002] No.36 Reply on Recording for Development Expenses of the State's Specific Science Study Projects issued by Accounting Department of Ministry of Finance, expenses incurred during the completion of R&D products designated under the specific funds provided by the State were treated as bunching of product processing costs and expenses of the products produced by the Company and were separately accounted for under science and technology R&D cost as set out in the list of inventories. Period end balance of science and technology R&D cost represents the costs and expenses bunched before the completion or check and acceptance of the projects subject to the State's specific funds.

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(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

### Explanatory note 6. Inventories and provision for inventories (continued)

Breakdown of provision for inventories:

Item	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
Raw materials	65,290	20,871	-	86,161
Work-in-progress	1,990	-	1,990	-
Finished goods	7,227	326,385	-	333,612
Materials for construction-in-progress	-	170,094	-	170,094
Dispatch goods	207,680	-	35,029	172,651
Total	282,187	517,350	37,019	762,518

### Explanatory note 7. Long-term investments

(1) Particulars of consolidated amounts of long-term investments are set out as follows:-

Item	Balance at the end of the period			Balance at the beginning of the period		
	Carrying balance	Provision for impairment	Carrying value	Carrying balance	Provision for impairment	Carrying value
Long-term equity investments						
Of which: share investments	-	-	-	-	-	-
Other equity investments	61,491	-	61,491	13,390	675	12,715
Differences in equity investments	18,721	13,036	5,685	21,271	-	21,271
Long-term bond investments	-	-	-	-	-	-
Total	80,212	13,036	67,176	34,661	675	33,986

# NOTES TO THE FINANCIAL STATEMENTS

[Prepared under PRC GAAP]

All amounts in '000, unless as otherwise stated

## NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

### Explanatory note 7. Long-term investments (continued)

#### a. Other equity investments

##### I. Other equity investments accounted for using the cost method

Name of investee company	Percentage of the registered capital of investee company	Initial investment cost	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
Shenzhen Capital Group Co., Ltd.	0.33%	5,000	5,000	-	-	5,000
Beijing Zhongshilian Digital System Company Limited	7.59%	3,240	3,240	-	-	3,240
Spread Telecom	4.5%	176	176	-	-	176
MI Security Co., Ltd	13.90%	676	676	(676)	-	-
Edmotech Co., Ltd	18%	1,406	1,406	-	-	1,406
Shenzhen Zhonyxing Xinyu FPC Company, Limited	19.23%	2,500	-	2,500	-	2,500
Zhongyi Dingxun Telecom Company Ltd.	16.00%	32,000	-	32,000	-	32,000
SunTop Technologies Ltd.		24	24	-	-	24
Total			10,522	33,824	-	44,346

##### II. Other equity investments accounted for using the equity method

Name of investee company	Percentage of the registered capital of investee company	Initial investment cost	Balance at the beginning of the period	Increase/decrease in investment cost for the period	Increase/decrease in equity interests for the period	Balance at the end of the period
Beijing Zhongxing Yuanjing Technology Co., Ltd.	30%	3,000	300	-	29	329
Beijing Zhongxing Xin Telecom Ltd.	50%	2,500	6,310	-	1	6,311
ZTE Portugal Co. Ltd	100%	496	496	(496)	-	-
KAZNURTEL Limited Liability Company	49%	USD0.25	-	1,012	-	1,012
Wuxi KaiEr Science and Technology Company, Limited	35%	3,500	-	3,500	-	3,500
Shenzhen Weigao Semiconductor Company, Limited	40%	4,000	-	4,000	-	4,000
Bestel Communication Ltd	50%		2,072		(79)	1,993
Total			9,178	8,016	(49)	17,145

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All amounts in '000, unless as otherwise stated

## NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

### Explanatory note 7. Long-term investments (continued)

#### b. Changes in provision for impairment of investments

Name of investee unit	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
MI Security Co., Ltd	675	-	675	-
Shenzhen Guoxin Electronics Development Company, Limited (difference in equity investments)	-	13,036	-	13,036
Total	675	13,036	675	13,036

#### c. Differences in equity investments

Investee unit	Amortized period	Initial amount	Amortized		Net value
			for the period	Accumulated amortization	
Shenzhen Guoxin Electronics Development Company, Limited	10 years	17,382	1,738	4,346	13,036
ZTE Mobile Tech Co., Limited	10 years	8,626	1,935	2,941	5,685
Total		26,008	3,673	7,287	18,721



# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

### Explanatory note 7. Long-term investments (continued)

(2) Particulars of Company amounts of long-term investments are set out as follows:–

Item	Balance at the end of the period			Balance at the beginning of the period		
	Carrying balance	Provision for impairment	Carrying value	Carrying balance	Provision for impairment	Carrying value
Long-term equity investment						
Of which: share investments	-	-	-	-	-	-
Other equity investments	2,999,345	-	2,999,345	1,594,478	-	1,594,478
Differences in equity investments	6,686	13,036	(6,350)	7,516	-	7,516
Long-term bond investments	-	-	-	-	-	-
Total	3,006,031	13,036	2,992,995	1,601,994	-	1,601,994

a. Other equity investments

i. Other equity investments accounted for using the cost method

Name of investee company	Percentage of the registered capital of investee company	Initial investment cost	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
Shenzhen Capital Group Co., Ltd.	0.33%	5,000	5,000	-	-	5,000
Beijing Zhangshilian Digital System Company, Limited	7.59%	3,240	3,240	-	-	3,240
Zhongyi Dingxun Telecom Company, Ltd.	16.00%	32,000	-	32,000	-	32,000
SunTop Technologies Ltd.		-	23	-	-	23
Total			8,263	32,000	-	40,263

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

### Explanatory note 7. Long-term investments (continued)

#### a. Other equity investments (continued)

#### II. Other equity investments accounted for using the equity method

Name of investee company	Percentage of the registered capital of investee company	Initial investment cost	Balance at the beginning of the period	Increase/decrease in investment cost for the period	Increase/decrease in equity interests for the period	Balance at the end of the period
ZTE Kangxun Telecom Co., Ltd.	90%	RMB45,000	883,626	-	153,140	1,036,766
ZTE Mobile Communication Equipment Co., Ltd.	90%	RMB9,000	9,265	-	75	9,340
Shanxi Zhongxing Telecom Equipment Company, Limited	51%	RMB4,080	6,096	-	(509)	5,587
Beijing Zhongxing Telecom Ltd.	50%	RMB2,500	6,310	-	1	6,311
ZTE (USA) Inc.	100%	USD650	(1,419)	-	5,592	4,173
Wuxi Zhongxing Optoelectronics Technologies Company, Limited	65%	RMB5,200	28,051	1,300	136	29,487
ZTEIC Design Co., Ltd.	60%	RMB30,000	4,868	-	1,940	6,808
Beijing Zhongxing Yuanjing Technology Co., Ltd.	30%	RMB3,000	300	-	29	329
ZTE (H.K.) Limited	100%	RMB5,500	397,348	47,700	(44,680)	400,368
Anhui Wantong Posts and Telecommunications Company, Limited	51%	RMB15,698	18,757	-	(140)	18,617
TELRISE (CAYMAN)	52.85%	RMB15,770	1,299	-	4,666	5,965
ZTE Future Tel Co., Ltd	54.14%	RMB26,975	11,998	-	(11,437)	561
Shenzhen Guoxing Electronics Development Company, Limited	90%	RMB12,318	3,292	-	-	3,292
Congo-Chine Telecom S.A.R.L.	51%	RMB41,500	29,958	-	2,198	32,156
Yangzhou Zhongxing Mobile Telecom Equipment Co., Limited	65%	RMB3,900	(1,320)	-	(8,570)	(9,890)
ZTE Mobile Tech Co., Limited	95%	RMB31,666	9,855	23,877	(24,698)	9,034
Nanjing Zhong Xing Software Development Technology Co., Ltd.	81%	RMB25,560	47,220	-	8,485	55,705
ZTE (UK) LIMITED	51%	USD372.30	(2,745)	-	(4,131)	(6,876)
Shenzhen Zhongxing Software Company, Limited	90%	RMB45,000	122,531	-	1,052,771	1,175,302
ZTE Integration Telecom Ltd.	75%	RMB24,000	18,449	17,250	1,223	36,922
ZTE Wistron Telecom AB	100%	RMB3,137	890	-	824	1,714
ZTE Communication Technologies, Ltd.	100%	USD950	415	6,167	(1,019)	5,563
ZTE DO BRASSIL LTDA	100%	USD900	(146)	-	(992)	(1,138)
Shenzhen Changfei Investment Company, Limited	51%	RMB15,300	-	15,300	27,585	42,885

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

### Explanatory note 7. Long-term investments (continued)

#### a. Other equity investments (continued)

#### II. Other equity investments accounted for using the equity method

Name of investee company	Percentage of the registered capital of investee company	Initial investment cost	Balance at the beginning of the period	Increase/decrease in investment cost for the period	Increase/decrease in equity interests for the period	Balance at the end of the period
Zhongxing Telecom Pakistan (Private) Limited	93%	RMB1,550	(4,502)	-	7,970	3,468
Guangdong New Pivo Technology & Service Company, Limited	90%	RMB4,500	-	4,500	274	4,774
Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited	90%	RMB45,000	-	45,000	(69)	44,931
Shanghai Zhongxing Telecom Equipment Technology & Service Company, Limited	51%	RMB5,100	-	5,100	331	5,431
Shenzhen Zhongxing Special Equipment Company, Limited	54%	RMB540	543	-	(55)	488
ZTE Holdings (Thailand) Co., Ltd	49%	USD13.72	(1,637)	-	1,631	(6)
ZTE (Thailand) Co., Ltd	49%	USD204.53	(1,365)	-	(380)	(1,745)
ZTE Corporation De Mexico	100%	USD28.12	(1,722)	-	(4,053)	(5,775)
Closed Joint Stock Company TK Mobile	51.00%	USD2,040	-	16,871	(1,936)	14,935
ZTE Kongxun Telecom Company India (Private) Ltd.	100%	USD200	-	1,654	(55)	1,599
ZTE ROMANIA SRL	100%	-	-	827	(378)	449
ZTE MALAYSIA CORPORATION SDN. BHD.	100%	-	-	496	(630)	(134)
ZiMax (Cayman) Holding Ltd.	100%	-	-	20,675	(2)	20,673
KAZNURTEL Limited Liability Company	49%	USD2,500	-	1,013	-	1,013
Total			1,586,215	207,730	1,165,137	2,959,082

#### b. Changes in provision for impairment of long-term investments

Provision for impairment of long-term investments	Balance at the beginning of the period	Increase for the period	Reverse for the period	Balance at the end of the period
Shenzhen Guoxin Electronics Development CO., Ltd (difference in equity investments)	-	13,036	-	13,036

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

### Explanatory note 7. Long-term investments (continued)

#### c. Differences in equity investments

Investee unit	Amortized period	Initial amount	Amortized		Net value
			for the period	Accumulated amortization	
Congo-Chine Telecom S.A.R.L.	10 years	(17,193)	(1,719)	(5,158)	(12,035)
Shenzhen Guoxin Electronics Development Company, Limited	10 years	17,382	1,738	4,346	13,036
ZTE Mobile Tech Co., Limited	10 years	8,626	1,935	2,941	5,685
Total		8,815	1,954	2,129	6,686

# NOTES TO THE FINANCIAL STATEMENTS

[Prepared under PRC GAAP]

All amounts in '000, unless as otherwise stated

## NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

### Explanatory note 8. Fixed assets and accumulated depreciation

Cost of fixed assets	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
Buildings	702,019	867	10,730	692,156
Motor Vehicle	130,191	52,163	5,083	177,271
Machinery equipment	733,687	165,584	60,138	879,133
Electronics equipment	677,131	410,636	189,018	898,749
Other equipment	63,496	15,892	928	78,460
Total	2,346,524	645,142	265,897	2,725,769

Accumulated depreciation	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
Buildings	47,631	33,821	-	81,452
Motor Vehicle	43,896	14,677	33,734	24,839
Machinery equipment	198,987	79,911	28,818	250,080
Electronics equipment	299,651	177,548	45,114	432,085
Other equipment	3,720	1,734	587	4,867
Total	593,885	307,691	108,253	793,323

Provision for impairment	Balance at the beginning of the period	Increase for the period	Reverse for the period	Balance at the end of the period
Buildings	-	7,708	-	7,708
Machinery equipment	-	1,475	-	1,475
Electronics equipment	-	85,797	-	85,797
Total	-	94,980	-	94,980
Net value	1,752,639			1,837,466

\* In 2004, the Company changed the depreciation period of fixed assets and a provision of RMB94,980 was made for such fixed assets which actual useful lives have exceeded the estimated useful lives after the change based on their carrying values.

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

### Explanatory note 9. Construction-in-progress

Name of construction project	Budget	Balance at the beginning of the period	Increase for the period	Transfer into fixed assets during the period	Other decrease for the period	Balance at the end of the period	Source of funds	Progress
Science and Technology Park R&D Center	333,136	14,345	56,924	-	-	71,269	Internal funds	Not completed
Land use rights	-	-	21,898	-	-	21,898	Internal funds	Not completed
4-th phase expanding network	-	-	11,407	-	-	11,407	Internal funds	Not completed
Others	20,000	6,270	9,650	-	5,817	10,103	Internal funds	Not completed
<b>Total</b>	<b>353,136</b>	<b>20,615</b>	<b>99,879</b>	<b>-</b>	<b>5,817</b>	<b>114,677</b>		

\* Balance of construction-in-progress of the Company for the period increased by RMB94,062, accounting for 456.28% as compared to the end of last year, mainly due to the increase in investment in the Science and Technology Park R&D Center by the Company during the period.

### Explanatory note 10. Intangible assets

Category	Method of possession	Initial amount	Amount at the beginning of the period	Addition in the period	Transfer in the period	Amortization in the period	Accumulated amortization	Amount at the end of the period	Remaining years for amortization
Non-patented technology	Acquisition	1,000	632	-	632	-	1,000	-	1-10 years
Software	Acquisition	186,307	90,135	76,400	-	49,948	69,720	116,587	1-5 years
Patented technology	Acquisition	7,998	7,024	311	-	1,458	2,121	5,877	1-10 years
Land use rights	Acquisition	12,589	9,732	1,236	-	227	1,848	10,741	49 years
Trademark use right	Investment	74,696	41,814	-	-	2,184	35,066	39,630	
Others		444	-	444	-	111	111	333	
<b>Total</b>		<b>283,034</b>	<b>149,337</b>	<b>78,391</b>	<b>632</b>	<b>53,928</b>	<b>109,866</b>	<b>173,168</b>	

# NOTES TO THE FINANCIAL STATEMENTS

[Prepared under PRC GAAP]

All amounts in '000, unless as otherwise stated

## NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

### Explanatory note 10. Intangible assets (continued)

Provision for impairment of intangible assets are as follow:

Item	Amount at the beginning of the period	Additions in the year	Diminution in the year			Amount at the end of the period
			Written-back due to value of assets increased	Amount debited due to other reasons	Total	
Software	-	12,882	-	-	-	12,882
Land use rights	6,322	-	-	-	-	6,322
Trademark use rights	-	7,750	-	-	-	7,750
Total	6,322	20,632	-	-	-	26,954

### Explanatory note 11. Long term prepaid expenses

Category	Initial amount	Amount at the beginning of the period	Addition in the period	Amortization in the period	Accumulated Amortization	Amount at the end of the period	Remaining years of amortization
Expenses for leased assets improvement	39,015	13,343	14,631	5,504	16,545	22,470	1-5 year
Others	2,174	989	1,181	855	859	1,315	1-3 year
Total	41,189	14,332	15,812	6,359	17,404	23,785	

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

### Explanatory note 12. Deferred tax assets

Item	Amount at the end of the period	Amount at the beginning of the period
Deferred income tax	104,625	66,414

### Explanatory note 13. Short-term loans

Category of loans	Currencies	Amount at the beginning of the period		Amount at the end of the period	
		Amount	RMB equivalent	Amount	RMB equivalent
Guaranteed loans	RMB	-	-	250,000	250,000
Mortgage loans	RMB	2,021	2,021		
Pledged loans	RMB	350,334	350,334	168,815	168,815
	USD	-	-	55,180	457,996
Credit loans	RMB	12,000	12,000	-	-
	USD	5,000	41,340		
Total			405,695		876,811

\*\* On 31 December 2003, the Company entered into a forfeiting contract for the trade receivables of export with Agricultural Bank of China Shenzhen Sha Tou Kok Sub-Branch, pursuant to which the Company secured financing from Agricultural Bank of China Shenzhen Sha Tou Kok Sub-Branch by pledging immature creditor's rights of US\$6,807. The financing amount was US\$6,807. The financing period is till the maturity date of the creditor's rights receivables which were pledged to secure the financing pursuant to the above-mentioned contract. As at the end of the reporting period, the creditor's rights receivables were not yet due for payment.

\*\* On 29 December 2004, the Company entered into a transfer contract for the trade receivables of export with no recourse with CITIC Industrial Bank Shenzhen Branch, pursuant to which the Company secured financing from CITIC Industrial Bank Shenzhen Branch by pledging immature creditor's rights of US\$3,432. The financing amount was US\$3,432. The financing period is till the maturity date of the creditor's rights receivables which were pledged to secure the financing pursuant to the above-mentioned contract. As at the end of the reporting period, the creditor's rights receivables were not yet due for payment.



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[Prepared under PRC GAAP]

All amounts in '000, unless as otherwise stated

## NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (continued)

### Explanatory note 14. Accounts payable

At the end of the period, accounts payable amounted to RMB2,919,483. The amount due to shareholders who held 5% or above of the Company's shares accounted for RMB51,168 (see Note 7 Related-party transactions).

### Explanatory note 15. Advances from customers

At the end of the period, advances from customers amounted to RMB2,630,721. There was no amount due to shareholders who held 5% or above of the Company's shares.

### Explanatory note 16. Taxes payable

Tax	At the end of the period	At the beginning of the period
Value-added tax	(223,852)	(96,261)
Business tax	13,815	328
Urban maintenance & construction tax	2,763	2,386
Enterprise income tax	228,648	106,503
Estate tax	10	-
Individual income tax	31,075	8,824
Total	52,459	21,780

The balance of the Company's tax payables at the end of the period increased by RMB30,679 as compared with that at the beginning of the period, representing a growth of 140.86%. This is mainly due to the realization of the changes in accounting estimate of the revenue of communication systems construction projects during the period, resulting an increase of revenue from main operations and the value-added tax and enterprise income tax payables were increased accordingly.

### Explanatory note 17. Other payables

At the end of the period, other payables were RMB698,727. The amount due to shareholders who held 5% or above of the Company's shares accounted for RMB313 (see Note 7 Related-party transactions).

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (continued)

### Explanatory note 18. Accrued expenses

Item	Amount at the end of the period	Amount at the beginning of the period
Interest expenses	3,072	11,887
Rent and water and electricity charges	3,966	225
Work installation expenses	1,063	316,206
Product maintenance fee	186,227	-
Commission	26,336	-
Others	47,870	3,994
Total	268,534	332,312

### Explanatory note 19. Anticipated liabilities

The outstanding amount of anticipated liabilities amounted to RMB20,000 at the end of the period, which mainly account for potential liabilities from the rendering of quality assurance of the products.

### Explanatory note 20. Long-term loans due within one year

Category of loans	Currencies	Amount	Amount at the end of the period RMB Equivalent	Amount at the beginning of the period RMB Equivalent
Credit loans	RMB	900	900	215,000
Guaranteed loans	RMB	-	-	58,000
	USD	1,929	16,000	-
Sub-total			16,900	273,000

### Explanatory note 21. Long-term loans

Category of loans	Currencies	Amount	Amount at the end of the period RMB Equivalent	Amount	Amount at the beginning of the period RMB Equivalent
Credit loans	RMB	450,000	450,000	650,900	650,900
Guaranteed loans	RMB	500,000	500,000	29,000	29,000
	USD	7,719	64,000	9,665	80,000
Pledged loans	EUR	1,000	11,263	-	-
Total			1,025,263		759,900

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (continued)

### Explanatory note 22. Specific payables

Item	Amount at the end of the period	Amount at the beginning of the period
Technology appropriations	227,320	123,475

### Explanatory note 23. Share capital

Item	Amount at the beginning of the period	Number of bonus shares	Amounts increase (decrease) during the period		Amount at the end of the period
			Addition	Decrease	
1. Non-trading shares					
1. Promoter shares					
State owned corporate shares	386,381	77,276	-	(1,384)	462,273
Domestic corporate shares	11,232	2,246	-	-	13,478
2. Non-promoter shares					
Domestic corporate shares	17,971	3,595	-	-	21,566
Total of non-trading shares	415,584	83,117		(1,384)	497,317
2. Trading shares					
1. Domestic listed RMB ordinary shares	251,712	50,342	-	-	302,054
2. Overseas listed foreign shares	-	-	160,151	-	160,151
Total of trading share	251,712	50,342	160,151	-	462,205
3. Total numbers of shares	667,296	133,459	160,151	(1,384)	959,522

\* On 17 May 2004, pursuant to a resolution passed at the Company's shareholders' meeting, the Company increased its capital by a total of 133,459,200 shares by way of a bonus issue on the basis of 2 shares for every 10 shares then held based on its share capital as at 31 December 2003. Thereupon the Company's registered capital was increased to RMB800,755. The increased capital was verified by the capital verification report Shen Na Yan Zi Number (2004) 059 prepared by Shenzhen Na Fang-Min He Certified Public Accountants.

\*\* On 9 December 2004, the Company made an overseas public offering of 160,151,040 overseas listed foreign invested shares (H Shares), and a total of 1,384,590 state owned corporate shares were sold. The share capital of the Company has increased RMB158,767. The above share capital was verified by the capital verification report Shenhua Yan Zi Number (2005) 003 prepared by Shenzhen Dahua Tian Cheng Certified Public Accountants.

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (continued)

### Explanatory note 24. Capital reserve

Item	Amount at the beginning of the period	Increase in the period	Decrease in the period	Amount at the end of the period
Share premium	2,079,246	3,383,411	–	5,462,657
Provision for acceptance of non-cash asset donation	62	–	–	62
Provision for equity investments	26,735	2,204	–	28,939
<b>Total</b>	<b>2,106,043</b>	<b>3,385,615</b>	<b>–</b>	<b>5,491,658</b>

\* Increase in provision for equity investments was due to the changes in equity of the Company as a result of the changes in capital reserve of subsidiaries.

\*\* Increase in share premium during the period represents the share premium received upon the issuance of overseas listed foreign shares.

### Explanatory note 25. Surplus reserve

Item	Amount at the beginning of the period	Increase in the period	Decrease in the period	Amount at the end of the period
Statutory surplus reserve	624,091	361,265	–	985,356
including: Statutory common reserve	410,038	323,312	–	733,350
Statutory public welfare fund	214,053	37,953	–	252,006

### Explanatory note 26. Undistributed profit

	Amount at the beginning of the period	Increase in the period	Decrease in the period	Amount at the end of the period
	1,221,165	1,008,870	494,724	1,735,311

\* In addition, pursuant to the 2004 profit distribution plan announced at the twelfth meeting of the third session of the Board of Directors and based on the total share capital as at 31 December 2004, RMB2.5 was paid for every 10 shares (including tax), totaling RMB239,880 and the remaining reduced amounts were appropriated by surplus reserve and public welfare fund. In the amounts decreased during the period, an amount of RMB133,459 was passed and approved by the shareholders' meeting which is based on the total share capital as at 31 December 2003.

# NOTES TO THE FINANCIAL STATEMENTS

[Prepared under PRC GAAP]

All amounts in '000, unless as otherwise stated

## NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (continued)

### Explanatory note 27. Revenue and cost of main operations

Details of the group revenue and cost of main operations are as follows:

Business segment:

Items of main operations	2004		2003	
	Revenue from main operations	Cost of main operations	Revenue from main operations	Cost of main operations
Communication system construction	30,059,834	24,861,289	21,675,340	16,562,562
Communication terminal equipment	6,336,481	5,499,189	6,370,801	5,404,672
Telecommunications service income	51,141	24,553	55,624	27,493
Software product	2,435,916	153	-	-
Sub-total	38,883,372	30,385,184	28,101,765	21,994,727
Offsets against business segments within the Group	(16,185,219)	(16,016,078)	(12,065,730)	(11,701,771)
Total	22,698,153	14,369,106	16,036,035	10,292,956

\* Sales revenue from the five largest customers of the Company totalled RMB15,163,377, accounting for 66.80% of total sales revenue for the period.

\*\* Revenue from main operations increased by RMB6,662,118 as compared with that from the corresponding period last year, representing a growth rate of 41.54%. This is primarily due to the Company's expansion of the operation scale and the impact from the realization of the changes in accounting estimate of the revenue of communication systems construction projects.

Geographical segment:

Area	2004		2003	
	Revenue from main operations	Cost of main operations	Revenue from main operations	Cost of main operations
Domestic	32,507,053	25,630,881	25,719,501	20,565,705
Overseas	6,376,319	4,754,303	2,382,264	1,429,022
Subtotal	38,883,372	30,385,184	28,101,765	21,994,727
Offsets against geographical segments within the Group	(16,185,219)	(16,016,078)	(12,065,730)	(11,701,771)
Total	22,698,153	14,369,106	16,036,035	10,292,956

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (continued)

### Explanatory note 27. Revenue and cost of main operations (continued)

Details of revenue and costs of main operations of the Company are as follows:

Business segment:

Items of main operations	2004		2003	
	Revenue from main operations	Cost of main operations	Revenue from main operations	Cost of main operations
Communication system equipment	16,486,739	11,831,497	11,865,868	8,482,999
Communication terminal equipment	5,086,206	4,454,322	3,421,019	2,870,183
Total	21,572,945	16,285,819	15,286,887	11,353,182

Geographical segment:

Area	2004		2003	
	Revenue from main operations	Cost of main operations	Revenue from main operations	Cost of main operations
Domestic	17,545,832	13,708,115	13,952,170	10,513,829
Overseas	4,027,113	2,577,704	1,334,717	839,353
Total	21,572,945	16,285,819	15,286,887	11,353,182

### Explanatory note 28. Taxes and levies on main operations

Types of tax	2004	Basis of calculation
Business tax	31,532	5%, 3%
Urban maintenance & construction tax	10,272	1%, 7%
Education surcharge	29,108	3%
Total	70,912	

### Explanatory note 29. Profit from other operations

Item of activities	Amount for the period
Sales of raw materials	27,841
Technology service and consultation fee	12,678
Others	820
Total	41,339

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (continued)

### Explanatory note 30. Finance Expenses

Segment	2004	2003
Interest expenses	113,661	109,975
Less: Interest income	22,578	21,151
Gains/losses on exchange	16,130	(7,284)
Cash discounts and interest subsidy	138,508	163,879
Others	39,257	47,176
Total	284,978	292,595

### Explanatory Note 31. Investment income

Details of consolidated investment income are as follows:

Segment	2004	2003
Income from stock	12,140	-
Equity investment difference in amortization	(3,673)	(2,344)
Investment income calculated under equity method	650	(1,465)
Dividends from associated companies	250	-
Gains/losses on disposal of equity	-	(2,371)
Provision for impairment of long term investments	(13,036)	(675)
Total	(3,669)	(6,855)

Details of investment income of the Company are as follows:

Segment	2004	2003
Investment income calculated under equity method	1,164,640	993,655
Dividends received from investee companies	250	-
Amortized difference in equity investments	(1,954)	(625)
Provision for impairment of long-term investments	(13,036)	-
Total	1,149,900	993,030

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (continued)

### Explanatory Note 32. Subsidies income

Segment	2004	2003
Refund of development fund	-	910
Refund of value-added tax of software products*	345,066	60,181
Financial subsidies on essential new products	20,254	51,592
Preferential financial subsidies on new products	3,052	15,857
Subsidies granted on export sales	4,631	333
Others	5,695	-
<b>Total</b>	<b>378,698</b>	<b>128,873</b>

\* The refund of value-added tax on software products is the part of the value-added tax on the sales of software products which exceeds 3% of the actual tax burden refunded to the subsidiary held by the Company immediately after collecting, pursuant to related spirit of the "Policies on Encouraging the Development of Software Industry and Integrated Circuit Industry" of the State Council and the approval of the Shenzhen Municipal office of the State Administration of Taxation.

### Explanatory Note 33. Non-operating income/expense

#### 1. Non-operating income

Item of income	2004	2003
Transfer of output tax for locally produced and sold products	-	25,359
Gains from penalty	5,155	507
Gains from compensation	6,756	7,076
Net gains from disposal of fixed assets	164	526
Others	5,966	166
<b>Total</b>	<b>18,041</b>	<b>33,634</b>

#### 2. Non-operating expenses

Item of expenses	2004	2003
Transfer of input tax for locally produced and sold products	-	13,637
Provision for impairment of fixed assets	87,003	-
Provision for impairment of intangible assets	20,632	6,322
Others	5,770	1,856
Net loss on write-off of assets	43,785	50,034
Input tax not offset by exports	3,447	-
<b>Total</b>	<b>160,637</b>	<b>71,849</b>

\* The amount of non-operating expenses in 2004 was larger, mainly due to the impact of the provision for impairment of fixed assets and the provision for amortization of intangible assets.



# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 7. RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES

### 1. Relationship with related parties

#### (1) Related parties with non-controlling relationship

Name of related companies	Relationship with the Company
Shenzhen Zhongxing WXT Equipment Company, Ltd.	Shareholder of the Company's controlling shareholder
Shenzhen Zhongxing Information Technology Co., Ltd.	Partially holding company of the shareholder of the Company's controlling shareholder
Shenzhen Lead Communications Company, Limited*	Has the same controlling shareholder as the Company
Beijing Zhongxing Yuanjing Technology Co., Ltd.	Associated company of the Company
Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	Has the same controlling shareholder as the Company
Xi'an Microelectronics Technology Research Institute	Shareholder of the Company's controlling shareholder
Lishan Microelectronics Research Institute	Shareholder of the Company
Beijing Zhongxing Telecom Ltd.	Subsidiary jointly-controlled by the Company
Beijing Zhongxing Intelligent Transportation Systems Ltd.	Holding subsidiary of a subsidiary jointly-controlled by the Company
Shenzhen Zhongxing Xinyu FPC Company, Limited	Has the same controlling shareholder as the Company
Shenzhen Gaodonghua Communication Technology Co., Ltd	Partially holding company of the shareholder of the Company's controlling shareholder
Beijing Xieli Chaoyue Science Technology Co., Ltd.	Controlling company of the shareholder of the Company's controlling shareholder
Shenzhen Zhongxing Development Co., Ltd.	Partially holding company of the shareholder of the Company's controlling shareholder
Chung Xing (Hong Kong) Development Limited	Company controlled by key management personnel of the Company

\* Shenzhen Lead Communications Company, Limited has been acquired by Shenzhen Changfei Investment Company, Limited, the holding subsidiary of the Company in March 2004, and has been combined in the consolidated financial statements of the Company, rather than as a related company after the acquisition.

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 7. RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES (continued)

### 1. Relationship with related parties (continued)

#### (2) Related parties with controlling relationship

Name of related companies	Category	Legal representative	Registered capital	Business	Shares or interests held	Relationship with the Company
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	State-owned	Zhang Taifeng	RMB10 million	*	52.85%	Controlling shareholder of the Company

\* It is engaged in the production of programme-controlled switches, telephones and their accessories and electronic products, and operation of import and export business.

#### (3) Interest holding or shareholding and its changes regarding related parties with controlling relationship

Related companies	Amount at the beginning of the period	Increase in the period	Decrease in the period	Amount at the end of the period
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	352,685	70,537	-	423,222

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 7. RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES (continued)

### 2. Related parties transactions

(1) Purchase of products from the related parties by the Company

Item	Name of Companies	2004		2003	
		Amount	Percentage of the item	Amount	Percentage of the item
Purchase of goods	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	254,467	1.92%	357,573	3.54%
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	107,842	0.81%	107,364	1.06%
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	145,659	1.10%	16,584	0.16%
	Shenzhen Zhongxing Information Technology Co., Ltd.	7,301	0.06%	256	-
	Xi'an Microelectronics Technology Research Institute	12,103	0.09%	4,340	0.049%
	Shenzhen Zhongxing Xinyu FPC Company, Limited	6,686	0.05%	-	-
	Beijing Zhongxingxin Telecom Equipment Co., Ltd.	266	-	-	-
	Shenzhen Lead Communications Company, Limited*	39,747	0.3%	49,871	0.49%
	Shenzhen Gaodonghua Communication Technology Co., Ltd	12,034	0.09%	-	-
	Chung Hing (Hong Kong) Development Limited	1,500	0.01%	500	-

\* The amount involved in related-party transactions between the Company and Shenzhen Lead Communications Company, Limited represents the transaction amount before that company was consolidated in the Company in January to March of 2004.

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 7. RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES (continued)

### 2. Related parties transactions (continued)

#### (2) Sales of products to the related parties from the Company

Item	Name of Companies	2004		2003	
		Amount	Percentage of the item	Amount	Percentage of the item
Sales of goods	Shenzhen Zhongxing Information Technology Co., Ltd.	3,435	0.01%	10,339	0.06%
	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	1	—	6,333	0.04%
	Beijing Zhongxingxin Telecom Equipment Ltd.	10,904	0.04%	—	—
	Beijing Zhongxing Yuanjing Technology Co., Ltd.	13,945	0.05%	7,658	0.05%
	Shenzhen Lead Communications Company, Limited*	43,577	0.16%	47,829	0.28%
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	1,580	0.01%	1,211	0.01%
	Beijing Zhongxing Intelligent Transportation Systems Ltd.	16,591	0.06%	—	—
	Xi'an Microelectronics Technology Research Institute	52,547	0.19%	—	—
	Beijing Xieli Chaoyue Science Technology Co., Ltd.	228	—	—	—
	Shenzhen Zhongxing Development Co. Ltd.	2,982	0.01%	—	—

\* The amount involved in related-party transactions between the Company and Shenzhen Lead Communications Company, Limited was the transaction amount before these two companies were consolidated in the Company in January to March of 2004.

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 7. RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES (continued)

### 3. Amounts due from/to related parties

Items	Name of Related Companies	Amount at the end of the period	Amount at the beginning of the period
Accounts payable	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	51,168	—
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	31,325	23,481
	Shenzhen Zhongxin Information Technology Co., Ltd.	3,487	2,737
	Shenzhen Lead Communications Company, Limited	—	22,507
	Shenzhen Zhongxing Xinyu FPC Company, Limited	2,057	—
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	17,939	10,060
	Shenzhen Gaodonghua Communication Technology Co., Ltd.	5,046	—
	Beijing Zhongxingxin Telecom Equipment Co., Ltd.	93	—
	Xi'an Microelectronics Technology Research Institute	3,923	—
Other payables	Shenzhen Zhongxing Telecom Ltd.	313	313
	Lishan Microelectronics Research Institute	65	—
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	12	—
Notes payables	Shenzhen Zhongxing WXT Equipment Company, Ltd.	—	4,499
	Shenzhen Gaodonghua Communication Technology Co., Ltd.	8,448	—
Accounts prepaid	Shenzhen Zhongxing Telecom Ltd.	—	702
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	613	1,000
	Shenzhen Zhongxin Information Technology Co., Ltd.	2,663	5,258
Other receivables	Xi'an Microelectronics Technology Research Institute	65	65
	Lishan Microelectronics Research Institute	565	565
	Shenzhen Zhongxin Information Technology Co., Ltd.	1,038	1,038
	China Precision Machinery Import & Export Shenzhen Company	1,394	—
Accounts receivable	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	169	216
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	2,930	1,082
	Shenzhen Lead Communications Company, Limited	—	32,258
	Beijing Zhongxing Yuanjing Technology Co., Ltd.	3,187	4,016
	Shenzhen Zhongxin Information Technology Co., Ltd.	1,246	2,181
Advances from customers	Beijing Zhongxing Intelligent Transportation Systems Ltd.	1,082	1,393
	Xi'an Microelectronics Technology Research Institute	93	712
	Beijing Zhongxing Telecom Ltd.	847	—
Proposed dividends	Shenzhen Zhongxing WXT Equipment Company, Ltd.	12,087	12,087
	Lishan Microelectronics Research Institute	936	—

# NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

## NOTE 8. CONTINGENT ISSUES

The Company has the following disclosable contingent issues:

1. The immature discounted trade bills amounted to RMB440,885 in the current period. If the debtor fails to make repayment when the amount falls due, the Company shall bear the liabilities in repaying the amount.
2. The sold immature accounts receivable amounted to RMB691,744 in the current period. If the debtor fails to make repayment when the amount falls due, the Company shall have the responsibility to assist the bank in recovering this amount from the debtor. Apart from paying interests overdue, the Company has no responsibility in repaying the amount.
3. After obtaining the approval document Jing Jing Mao Ji Cai Ji Zi [B] No.0288 issued by Beijing Foreign Economic Relations & Trade Commission, a trade amount of USD22,632 arising from exporting goods to Pakistan Telecommunications by the Company obtained a tax exemption (rebate) for forward settlement. As at 24 December 2004, the Company entered into an "Agreement in Relation to Payment Forfeit under Pakistan Telecommunications Project's Letter of Credit"(關於巴基斯坦通訊項目信用證下收匯買新事項的協議) with China Wanbo Engineering Company(中國萬寶工程公司), pursuant to which 7 outstanding payment items were forfeited to the headquarter of Bank of China. As at 31 December 2004, the amount due from Pakistan Telecommunications was USD1,720. The remaining trade amount shall be settled and written off before September 2006. If the amount is not written off accordingly, the Company shall return the export tax exemption for the portion that has not been settled. The Company estimates that the remaining trade amount shall be recovered and written off in a proper way according to the regulations set in the contract within the written-off period.
4. As at 31 December 2004, bank performance guarantee issued by the Company amounting to RMB1,626,070 were still outstanding.

## NOTE 9. NON-ADJUSTMENT ITEMS AMONG POST BALANCE SHEET EVENTS

There is no non-adjustment item after the balance sheet date.

## NOTE 10. OTHER IMPORTANT MATTERS

There are no other important matters.

# NOTES TO THE FINANCIAL STATEMENTS

[Prepared under PRC GAAP]

All amounts in '000, unless as otherwise stated

## NOTE 11. RECONCILIATION OF DIFFERENCE OF FINANCIAL REPORTS PREPARED UNDER DOMESTIC & HONG KONG ACCOUNTING STANDARDS

Net assets recognized under Hong Kong GAAP	9,217,152
Add:	
Pension benefits provided under Hong Kong GAAP	28,923
Technology funds and research and development costs accounted for under different standards	(69,589)
Others	(2,047)
Net assets recognised in financial statements under Accounting System for Business Enterprises in P.R.C.	9,174,439
Net profit calculated under Hong Kong GAAP	1,272,489
Add:	
Pension benefits provided under Hong Kong GAAP	1,733
Technology funds and research and development costs accounted for under different standards	24,434
Financial statements for H Shares are restated for previous 3 years as the impact of changes in accounting estimates and other adjustment items for the current year is adjusted respectively the financial statements for the years before	(289,786)
Net profit recognised in financial statements under Accounting System for Business Enterprises	1,008,870

## NOTE 12. NET RETURN ON ASSETS AND EARNINGS PER SHARE

Profit in the reporting period	Net Return on Assets (%)		Earnings per Share	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from main operations	90.01%	158.87%	8.61	11.08
Operating profit	12.93%	22.82%	1.24	1.59
Net Profit	11.00%	19.41%	1.05	1.35
Net profit after extraordinary items	10.82%	19.09%	1.03	1.33