CONSOLIDATED INCOME STATEMENT

(Prepared under Hong Kong accounting standards)

Year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
REVENUE	4	**21,575,920**	21,220,062
Cost of sales		**(14,101,720)**	(13,813,530)
Gross profit		**7,474,200**	7,406,532
Other income and gains	4	**681,646**	534,129
Research and development costs		**(1,959,543)**	(2,265,211)
Selling and distribution costs		**(3,186,442)**	(2,799,630)
Administrative expenses		**(1,095,400)**	(981,420)
Other operating expenses		**(128,605)**	(162,352)
Finance costs	6	**(175,884)**	(140,397)
Share of profits and losses of:			
Jointly-controlled entities		**(1,198)**	3,105
Associates		**(2,969)**	32
PROFIT BEFORE TAX	5	**1,605,805**	1,594,788
Tax	9	**(179,851)**	(114,954)
PROFIT FOR THE YEAR		**1,425,954**	1,479,834
Attributable to:			
Equity holders of the parent	10	**1,287,701**	1,272,489
Minority interests		**138,253**	207,345
		1,425,954	1,479,834
DIVIDEND			
Proposed final	11	**239,880**	239,880
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	12	**RMB1.34**	RMB1.57

31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	2,470,965	1,935,131
Prepaid land premiums/land lease payments	15	55,062	53,095
Intangible assets	16	335,835	207,949
Goodwill	17	—	5,684
Investments in jointly-controlled entities	19	6,588	7,786
Investments in associates	20	35,583	8,845
Available-for-sale equity investments/long-term investments	21	43,288	44,347
Long-term trade receivables	24	307,666	88
Factored long-term trade receivables	25	687,765	—
Deferred tax assets	35	59,587	104,681
Total non-current assets		4,002,339	2,367,606
CURRENT ASSETS			
Prepaid land premiums/land lease payments	15	1,418	1,361
Inventories	22	2,240,327	1,725,067
Amount due from customers for contract work	23	4,689,157	2,752,024
Trade and bills receivables	24	4,686,775	5,912,181
Factored trade receivables	25	36,416	—
Prepayments, deposits and other receivables	26	1,188,313	651,301
Loan receivables	27	46,165	—
Pledged bank deposits	28	175,899	88,978
Cash and cash equivalents	28	5,397,233	7,509,245
Total current assets		18,461,703	18,640,157
CURRENT LIABILITIES			
Trade and bills payables	29	6,269,792	4,341,111
Amount due to customers for contract work	23	733,455	2,318,731
Other payables and accruals	30	2,900,137	2,768,159
Interest-bearing bank borrowings	31	599,695	421,695
Bank advances on factored trade receivables	25	36,416	—
Tax payable		114,672	230,719
Dividend payables		163,008	40,921
Total current liabilities		10,817,175	10,121,336
NET CURRENT ASSETS		7,644,528	8,518,821
TOTAL ASSETS LESS CURRENT LIABILITIES		11,646,867	10,886,427

continued/...

31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	31	**80,000**	1,025,262
Bank advances on factored long-term trade receivables	25	**687,765**	—
Provision for retirement benefits	32	**30,459**	28,923
Other long-term payables	33	**127,402**	136,710
Total non-current liabilities		**925,626**	1,190,895
Net assets		**10,721,241**	9,695,532
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	36	**959,522**	959,522
Reserves	37(a)	**9,051,110**	8,017,750
Proposed final dividend	11	**239,880**	239,880
		10,250,512	9,217,152
Minority interests		**470,729**	478,380
Total equity		**10,721,241**	9,695,532

Hou Weigui
Director

Yin Yimin
Director

Year ended 31 December 2005

		Attributable to equity holders of the parent								
	Note	Issued share capital RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total Equity RMB'000
At 1 January 2004		667,296	2,079,104	720,208	1,043	932,091	200,188	4,599,930	226,553	4,826,483
Issue of bonus shares		133,459	—	—	—	(133,459)	—	—	—	—
Issue of H shares		160,151	3,574,571	—	—	—	—	3,734,722	—	3,734,722
Conversion of state-owned equity interest shares		(1,384)	(29,475)	—	—	—	—	(30,859)	—	(30,859)
Share issue expenses		—	(161,685)	—	—	—	—	(161,685)	—	(161,685)
Exchange realignments		—	—	—	2,743	—	—	2,743	906	3,649
Total income and expense for the year recognised directly in equity		—	—	—	2,743	—	—	2,743	906	3,649
Net profit for the year		—	—	—	—	1,272,489	—	1,272,489	207,345	1,479,834
Total income and expense for the year		—	—	—	2,743	1,272,489	—	1,275,232	208,251	1,483,483
Final 2003 dividend declared		—	—	—	—	—	(200,188)	(200,188)	—	(200,188)
Transfer from retained profits		—	—	265,148	—	(265,148)	—	—	—	—
Proposed final 2004 dividend	11	—	—	—	—	(239,880)	239,880	—	—	—
Capital contributions by minority shareholders		—	—	—	—	—	—	—	39,112	39,112
Acquisition of subsidiaries		—	—	—	—	—	—	—	6,921	6,921
Dividends paid to minority shareholders		—	—	—	—	—	—	—	(2,457)	(2,457)
At 31 December 2004 and 1 January 2005		959,522	5,462,515	985,356	3,786	1,566,093	239,880	9,217,152	478,380	9,695,532
Exchange realignments and other income recognised directly in equity		—	5,306	—	(19,767)	—	—	(14,461)	(3,111)	(17,572)
Total income and expense for the year recognised directly in equity		—	5,306	—	(19,767)	—	—	(14,461)	(3,111)	(17,572)
Net profit for the year		—	—	—	—	1,287,701	—	1,287,701	138,253	1,425,954
Total income and expense for the year		—	5,306	—	(19,767)	1,287,701	—	1,273,240	135,142	1,408,382
Final 2004 dividend declared		—	—	—	—	—	(239,880)	(239,880)	—	(239,880)
Acquisition of subsidiaries		—	—	—	—	—	—	—	19,115	19,115
Disposal of subsidiaries		—	—	—	—	—	—	—	(11,555)	(11,555)
Acquisition of minority interest		—	—	—	—	—	—	—	(9,704)	(9,704)
Dividends declared to minority shareholders		—	—	—	—	—	—	—	(122,087)	(122,087)
Dividends paid to minority shareholders		—	—	—	—	—	—	—	(43,789)	(43,789)
Capital contributions by minority shareholders		—	—	—	—	—	—	—	25,227	25,227
Transfer from retained profits		—	38,603	278,704	—	(317,307)	—	—	—	—
Proposed final 2005 dividend	11	—	—	—	—	(239,880)	239,880	—	—	—
At 31 December 2005		959,522	5,506,424*	1,264,060*	(15,981)*	2,296,607*	239,880	10,250,512	470,729	10,721,241

* These reserve accounts comprise the consolidated reserves of approximately RMB9,051,110,000 (2004: RMB8,017,750,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

(Prepared under Hong Kong accounting standards)

Year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,605,805**	1,594,788
Adjustments for:			
Finance costs	6	**175,884**	140,397
Share of profits and losses of jointly-controlled entities		**1,198**	(3,105)
Share of profits and losses of associates		**2,969**	(32)
Interest income	4	**(54,870)**	(30,118)
Government grants	4	**(139,491)**	(68,710)
Depreciation	5	**386,859**	279,797
Recognition of prepaid land lease payments	15	**1,317**	1,360
Provision against inventory obsolescence and net realisable value	5	**96,185**	279,575
Provision for bad and doubtful debts	5	**15,642**	100,027
Amortisation and impairment of goodwill	5, 17	**56,267**	17,733
Amortisation of intangible assets	5, 16	**82,735**	79,846
Impairment of intangible assets	5, 16	**—**	7,847
Loss on disposal of items of property, plant and equipment	5	**6,163**	11,654
Loss on retirement and disposal of intangible assets	5	**70**	19,605
Loss on disposal of interests in subsidiaries	5	**2,057**	—
Gain on deemed disposal of interests in a subsidiary	4	**(3,655)**	—
Gain on disposal of short-term investments	4	**—**	(12,139)
Excess over the cost of business combinations/ negative goodwill recognised	4	**(12,236)**	(4,770)
Operating profit before working capital changes		**2,222,899**	2,413,755
(Increase)/decrease in long-term trade receivables		**(307,578)**	102,868
Increase in inventories		**(733,796)**	(657,672)
(Increase)/decrease in amount due from customers for contract work		**(1,937,133)**	900,967
(Increase)/decrease in trade and bills receivables		**1,217,673**	(757,033)
Increase in prepayments, deposits and other receivables		**(526,433)**	(171,933)
Increase in loan receivables		**(46,165)**	—
Increase/(decrease) in trade and bills payables		**1,943,636**	(168,656)
Decrease in amount due to customers for contract work		**(1,585,276)**	(452,273)
Increase in other payables and accruals		**121,791**	464,587
Increase in other long-term payables		**—**	4,978
Increase in factored trade receivables		**(36,416)**	—
Increase in factored long-term trade receivables		**(687,765)**	—
Bank advances on factored trade receivables		**724,181**	—
Cash generated from operations		**369,618**	1,679,588

continued/...

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations		369,618	1,679,588
Interest received		54,870	30,118
Interest and other finance costs paid		(175,884)	(140,397)
Hong Kong profits tax (paid)/refunded		(6,588)	2,239
PRC taxes paid		(217,663)	(116,863)
Overseas taxes paid		(26,553)	(9,650)
Dividends received from jointly-controlled entities		—	700
Dividends paid		(239,880)	(203,322)
Dividends paid to minority shareholders		(43,789)	(2,457)
Net cash inflow/(outflow) from operating activities		(285,869)	1,239,956
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of leasehold land		(3,341)	(414)
Purchases of items of property, plant and equipment		(803,781)	(646,554)
Proceeds from disposal of items of property, plant and equipment		3,727	5,754
Additions to intangible assets		(206,768)	(56,703)
Receipt of government grants		133,999	109,855
Purchases of available-for-sale equity investments/ long-term investments		(1,999)	(34,500)
Purchase of short-term investments		—	(82,891)
Proceeds from disposal of short-term investments		—	95,030
Acquisition of associates		(16,307)	(8,513)
Acquisition of subsidiaries	38	(51,449)	(7,602)
Acquisition of minority interests		(3,200)	(2,146)
Disposal of subsidiaries	39	(31,224)	—
(Increase)/decrease in pledged time deposits		(86,921)	8,107
Net cash outflow from investing activities		(1,067,264)	(620,577)

continued/...

Year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issue of H shares		—	3,573,037
Capital contributions by minority shareholders		25,227	39,112
New bank loans		108,695	1,768,029
Repayment of bank loans		(868,967)	(2,065,965)
Net cash inflow/(outflow) from financing activities		(735,045)	3,314,213
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(2,088,178)	3,933,592
Cash and cash equivalents at beginning of year		7,509,245	3,572,867
Effect of foreign exchange rate changes, net		(23,834)	2,786
CASH AND CASH EQUIVALENTS AT END OF YEAR		5,397,233	7,509,245
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	28	4,178,498	4,775,748
Non-pledged time deposits with original maturity of less than three months when acquired		1,218,735	2,733,497
		5,397,233	7,509,245

31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,718,547**	1,393,004
Prepaid land premiums/land lease payments	15	**49,406**	49,435
Intangible assets	16	**268,427**	159,835
Investments in subsidiaries	18	**408,868**	396,283
Investments in jointly-controlled entities	19	**2,500**	2,500
Investments in associates	20	**24,707**	4,013
Available-for-sale equity investments/long-term investments	21	**41,288**	40,264
Long-term trade receivables	24	**327,122**	—
Factored long-term trade receivables	25	**683,598**	—
Deferred tax assets	35	**55,113**	76,475
Total non-current assets		**3,579,576**	2,121,809
CURRENT ASSETS			
Prepaid land premiums/land lease payments	15	**1,300**	1,279
Inventories	22	**1,278,092**	1,203,430
Amount due from customers for contract work	23	**4,440,842**	3,414,540
Trade and bills receivables	24	**5,690,947**	6,256,867
Factored trade receivables	25	**5,007**	—
Prepayments, deposits and other receivables	26	**2,239,947**	1,224,398
Pledged bank deposits	28	**46,126**	44,512
Cash and cash equivalents	28	**4,212,810**	6,418,653
Total current assets		**17,915,071**	18,563,679
CURRENT LIABILITIES			
Trade and bills payables	29	**8,457,453**	6,748,602
Amount due to customers for contract work	23	**688,876**	2,162,901
Other payables and accruals	30	**2,590,981**	2,604,125
Interest-bearing bank borrowings	31	**500,000**	340,344
Bank advances on factored trade receivables	25	**5,007**	—
Tax payable		**63,974**	221,647
Dividend payables		**928**	920
Total current liabilities		**12,307,219**	12,078,539
NET CURRENT ASSETS		**5,607,852**	6,485,140
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,187,428**	8,606,949

continued/...

BALANCE SHEET (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	31	—	950,000
Bank advances on factored long-term trade receivables	25	**683,598**	—
Provision for retirement benefits	32	**30,459**	28,923
Other long-term payables	33	**81,111**	82,000
Total non-current liabilities		**795,168**	1,060,923
Net assets		**8,392,260**	7,546,026
EQUITY			
Issued capital	36	**959,522**	959,522
Reserves	37(b)	**7,192,858**	6,346,624
Proposed final dividend	11	**239,880**	239,880
Total equity		**8,392,260**	7,546,026

Hou Weigui
Director

Yin Yimin
Director

1. CORPORATE INFORMATION

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

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

During the year, the Company and its subsidiaries (the "Group") were principally involved in the design, development, manufacture and sale of telecommunications systems equipment and solutions.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention except for equity investments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 3	Business Combinations
HKAS Int-10	Government Assistance — No Specific Relation to Operating Activities (HKAS 20)
HKAS Int-13	Jointly Controlled Entities — Non-monetary Contributions by Venturers
HKAS Int-15	Operating Leases — Incentives
HKAS Int-21	Income Taxes — Recovery of Revalued Non-Depreciable Assets
HKAS Int-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
HKAS Int-29	Disclosure — Service Concession Arrangements

The adoption of HKASs 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 20, 23, 27, 28, 31, 33, 36, 37, 38, HKFRS 3, HKAS-Int-10, 13, 15, 21, 27 and 29 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. In addition, in prior periods, the Group's share of tax attributable to associates and jointly-controlled entities was presented as a component of the Group's total tax charge in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisitions results of associates and jointly-controlled entities is presented net of the Group's share of tax attributable to associates and jointly-controlled entities.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisition subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 — Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land premiums/land lease payments, while buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts for the year ended 31 December 2004 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land.

(b) HKAS 32 and HKAS 39 — Financial Instruments

(i) *Equity securities*

In prior years, the Group classified its investments in equity securities as long-term investments, which were held for non-trading purposes and were stated at their fair values on an individual basis with gains and losses recognised as movements in the investment revaluation reserve. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of RMB44,347,000 are designated as available-for-sale investments under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment.

The adoption of HKAS 39 has not resulted in any change in the measurement of these equity securities.

(ii) *Loans and receivables*

In prior years, the Group used general provision to account for the provisions for trade and bills receivables.

Upon the adoption of HKAS 39, the Group has developed a specific doubtful debt provisioning policy based on the customers' credit rating and historical repayment records.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with HKAS 39, comparative amounts have not been restated.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net investment in a foreign operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach Under HKAS 29 Financial Reporting in Hyperinflationary Economies

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 incorporates the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC) — Int 5 and HK(IFRIC) — Int 6 do not apply to the activities of the Group. HK(IFRIC) — Int 6 shall be applied for annual periods beginning on or after 1 December 2005.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

At 1 January 2005	Effect of adopting		
	HKAS 17#	HKASs 32# and 39*	
Effect of new policies (Increase/(decrease))	Prepaid land lease payments	Change in classification of equity investments	Total
	RMB'000	RMB'000	RMB'000
Assets			
Property, plant and equipment	(54,456)	—	(54,456)
Prepaid land lease payments	54,456	—	54,456
Available-for-sale equity investments	—	44,347	44,347
Long-term investments	—	(44,347)	(44,347)
			—

* Adjustment taken effect prospectively from 1 January 2005
\# Adjustments/presentation taken effect retrospectively

At 31 December 2005	Effect of adopting			
	HKAS 17	HKASs 32 and 39	HKAS 39	
Effect of new policies (Increase/(decrease))	Prepaid land lease payments	Change in classification of equity investments	Change in accounting estimate for provision of bad debts	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Property, plant and equipment	(56,480)	—	—	(56,480)
Prepaid land lease payments	56,480	—	—	56,480
Trade and bills receivables	—	—	145,920	145,920
Available-for-sale equity investments	—	43,288	—	43,288
Long-term investments	—	(43,288)	—	(43,288)
				145,920

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

(b) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

	Effect of adopting		
Effect of new policies	HKAS 1 Share of post-tax profits and losses of jointly-controlled entities and associates RMB'000	HKAS 39 Change in accounting estimate for provision of bad debts RMB'000	Total RMB'000
Year ended 31 December 2005			
Decrease in other operating expenses	—	145,920	145,920
Total increase in profit	—	145,920	145,920
Increase in basic earnings per share	—	0.15	0.15
Year ended 31 December 2004			
Increase/(decrease) in share of profits and losses of jointly-controlled entities	(305)	—	(305)
Decrease in tax	305	—	305
Total increase/(decrease) in profit	—	—	—
Increase/(decrease) in basic earnings per share	—	—	—

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

A joint venture is treated as:

(a) a subsidiary, if the Group/Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's investments in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's investments in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Excess over the cost of business combinations *(applicable to business combinations for which the agreement date is on or after 1 January 2005)*

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2 to 30 years
Leasehold improvements	Over the shorter of the lease terms and 10 years
Machinery, computer and office equipment	5 to 10 years
Motor vehicles	5 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, plant and machineries and other fixed assets under construction or installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and installation during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Technology know-how

Purchased technology know-how is stated at cost, less any impairment losses, and is amortised on the straight-line basis over its estimated useful life of not more than 10 years.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Computer software

Purchased computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 years.

Operating concession

Operating concession represents the right to operate a telecommunications company, and is stated at cost less accumulated amortisation and any impairment losses. Amortisation is provided on the straight-line basis over 20 years, being the period that the operating concession granted to the Group.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding 5 years, commencing from the date when the products are put into commercial production.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rental receivables under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land premiums/land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Applicable to the year ended 31 December 2004:

The Group classified its equity investments, other than subsidiaries, associates and jointly-controlled entities, as long-term investments.

Long-term investments

Long-term investments are non-trading investments in unlisted equity securities intended to be held on a long-term basis.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Applicable to the year ended 31 December 2004 (continued):

Long-term investments (continued)

Unlisted securities are stated at their estimated fair values, on an individual basis. The estimated fair values of unlisted investments are determined by the directors having regard to, inter alia, the prices of the most recent reported sales or purchases of the securities, or comparison of price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

The gains or losses arising from changes in fair value of a security are dealt with as movements in the investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the investment revaluation reserve, together with the amount of any further impairment, is charged to the income statement in the period in which the impairment arises.

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Applicable to the year ended 31 December 2005 (continued):

Available-for-sale financial assets (continued)

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets (applicable to the year ended 31 December 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Impairment of financial assets (applicable to the year ended 31 December 2005) (continued)

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss.

Derecognition of financial assets (applicable to the year ended 31 December 2005)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour, an appropriate proportion of overheads and/or subcontracting fee. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments in respect of telecommunications systems contracts. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price telecommunications systems contracts is recognised using the percentage of completion method when the contract activities have progressed to a stage where economic benefit can be reasonably foreseen and is measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from customers for contract work.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to customers for contract work.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to other payable or other long-term payable accounts and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for warranties granted by the Group on construction contracts are recognised based on cost of sales and past experience of the level of repairs and returns.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

Provisions for warranties granted by the Group on handsets are recognised based on sales volume and past experience of the level of repairs and returns.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits schemes

Defined contribution pension schemes

The Company and certain of its subsidiaries established in the PRC have joined a number of defined contribution pension schemes organised by the relevant provincial and municipal social insurance management bodies in the PRC provincial and municipal governments for certain of its employees. The Company, these subsidiaries and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries during the year. The contributions payable are charged as an expense to the income statement as incurred. The assets of the schemes are held separately from those of the Group in independently administered funds.

Defined benefits pension schemes

In addition, the Group provides certain employees, who joined the group before 1 January 2002, with post-retirement monthly pension payments. The cost of providing these benefits under the Group's defined benefits plan is actuarially determined and recognised over the employees' service period by using the projected unit credit method. The Group makes monthly pension payments to eligible retirees and no contribution has been made to fund future obligations since the commencement of the defined benefits scheme. Therefore, there are no assets in respect of this scheme held separately from those of the Group in independently administered funds and no actuarial valuation for the plan assets has been conducted.

Foreign currencies

These financial statements are presented in Renminbi, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries, a jointly-controlled entity and an associate are currencies other than the Renminbi. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Renminbi at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statements.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Renminbi at the weighted average exchange rates for the year.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above;

(c) from the rendering of services, when services are rendered;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Revenue recognition

The Group determines whether a sale qualifies as an construction contract and has developed criteria in making that judgement. A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely inter-related or interdependent in terms of their design, technology and function on their ultimate purpose or use. Therefore, revenue arising from the telecommunications systems contracts should be accounted for under HKAS 11 using the percentage of completion method.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation uncertainty

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

Impairment of goodwill and property, plant and equipment

The Group determines whether goodwill and property, plant and equipment are impaired when there is an indication of impairment. This requires an estimation of the value in use of the cash-generating units to which the goodwill and property, plant and equipment were allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was nil (2004: RMB5,684,000). The carrying amount of property, plant and equipment was approximately RMB2,470,965,000 (2004: RMB1,935,131,000). More details are set out in notes 14 and 17.

Management carries out the impairment review on property, plant and equipment by comparing the lower of carrying amount and recoverable amount of property, plant and equipment.

An impairment loss is recognised when the carrying amount of property, plant and equipment exceeds the recoverable amount. An impairment loss is charged to the income statement in the period in which it arises. Management assesses the recoverable amount by the higher of the fair value less costs to sell and the expected value in use which is determined by the expected useful life and the expected discounted net cashflow of property, plant and equipment.

Goodwill is subject to annual impairment review according to the future economic benefit generated by the acquired entity. Impairment of goodwill is provided whenever the underlying entity is unable to generate the future economic benefit within the entity; not able to benchmark with other companies within the industry; due to the market change; or in any case the Group is unable to assess the future economic benefit of that entity reliably.

Warranty claims

The Group generally offers warranties for its products for 12 months. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims.

Factors that could impact the estimated claim information include the success of the Group's productivity and quality initiatives, as well as parts and labour costs.

Were claims costs to differ by 10% from management's estimates, the warranty provisions would be an estimated amount of approximately RMB25 million higher or lower in the year of 2006.

Depreciation and amortisation

The Group's net book value of property, plant and equipment as at 31 December 2005 was approximately RMB2,470,965,000. The Group depreciates the items of property, plant and equipment on the straight-line basis over their estimated useful lives, and after taking into account of their estimated residual value, commencing from the date the items of property, plant and equipment is placed into productive use. The estimated useful lives and dates that the Group places the items of property, plant and equipment into productive use reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation uncertainty (continued)

Income taxes

As at 31 December 2005, a deferred tax asset of approximately RMB59,587,000 has been recognised in the Group's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. Due to good estimation to the profits generated in the future, the directors of the Company consider no material reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

3. SEGMENT INFORMATION

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

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

(a) The wireless communications segment engages in the provision of systems integration and the sale of equipment for mobile phone network systems, primarily in respect of CDMA, GSM and wireless local access (PHS) systems.

(b) The wireline switch and access segment engages in the manufacture and sale of wireline, circuit-switches and narrow-band access systems for fixed line phone systems.

(c) The optical and data communications segment engages in the provision of DSL systems, SDH, WDM systems and softswitch systems, broadband routing switches, wireless access data products and other data communications products.

(d) The handsets segment engages in the manufacture and sale of CDMA and GSM mobile phone handsets and wireless local access (PHS) handsets.

(e) The telecommunications software systems and services and other products segment represented the provision of telecommunications software systems such as operation support systems and the provision of fee-based services.

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

3. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2005 and 2004.

Group

	Wireless communications		Wireline switch and access		Optical and data communications		Handsets		Telecommunications software systems, services and other products		Consolidated	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000	**2005 RMB'000**	2004 RMB'000	**2005 RMB'000**	2004 RMB'000	**2005 RMB'000**	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Segment revenue:												
Contract revenue from external customers	8,930,836	8,786,407	2,752,570	2,598,588	3,352,980	2,335,273	—	—	1,943,428	1,484,827	16,979,814	15,205,095
Sale of goods and services	—	—	—	—	—	—	4,333,082	6,014,967	263,024	—	4,596,106	6,014,967
Total	8,930,836	8,786,407	2,752,570	2,598,588	3,352,980	2,335,273	4,333,082	6,014,967	2,206,452	1,484,827	21,575,920	21,220,062
Segment results	2,590,240	2,654,012	1,085,112	1,150,138	160,110	258,586	118,165	(64,871)	334,131	609,038	4,287,758	4,606,903
Interest and unallocated gains											681,646	534,129
Unallocated expenses											(3,183,548)	(3,408,984)
Finance costs											(175,884)	(140,397)
Share of profits and losses of:												
Jointly-controlled entities											(1,198)	3,105
Associates											(2,969)	32
Profit before tax											1,605,805	1,594,788
Tax											(179,851)	(114,954)
Profit for the year											1,425,954	1,479,834
Assets and Liabilities												
Segment assets	5,292,995	3,975,515	2,196,473	1,319,962	2,778,123	1,624,418	2,162,194	2,460,313	810,136	740,563	13,239,921	10,120,771
Investments in jointly-controlled entities	—	—	—	—	4,613	4,035	—	—	1,975	3,751	6,588	7,786
Investments in associates	—	—	—	—	—	—	—	—	35,583	8,845	35,583	8,845
Unallocated assets											9,181,950	10,870,361
Total assets											22,464,042	21,007,763
Segment liabilities	860,005	1,486,801	91,578	407,707	204,755	275,238	344,933	248,998	93,207	148,985	1,594,478	2,567,729
Unallocated liabilities											10,148,323	8,744,502
Total liabilities											11,742,801	11,312,231
Other segment information:												
Depreciation and amortisation	123,367	106,452	37,519	22,906	82,886	50,605	105,251	70,939	45,421	30,255	478,496	361,003
Amortisation of goodwill	—	—	—	—	—	—	—	2,958	—	1,738	—	4,696
Capital expenditure	371,525	266,426	112,990	57,329	249,611	126,652	316,966	177,542	136,787	75,722	1,187,879	703,671

(b) Geographical segments

The following table presents revenue information for the Group's geographical segments. Over 90% of the Group's assets are located in the PRC. Accordingly, no analysis of the assets and capital expenditure by geographical segment is presented.

Group

	The PRC		Asia (excluding the PRC)		Africa		Others		Consolidated	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000	**2005 RMB'000**	2004 RMB'000	**2005 RMB'000**	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Segment revenue:										
Contract revenue from external customers	10,838,079	10,636,190	3,428,396	2,453,308	2,576,744	1,513,052	136,595	602,545	16,979,814	15,205,095
Sale of goods and services	3,036,230	6,008,332	1,140,259	6,635	258,667	—	160,950	—	4,596,106	6,014,967
	13,874,309	16,644,522	4,568,655	2,459,943	2,835,411	1,513,052	297,545	602,545	21,575,920	21,220,062

4. REVENUE, OTHER INCOME AND GAINS

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

An analysis of the Group's turnover and other income and gains is as follows:

	Note	2005 RMB'000	2004 RMB'000
Revenue			
Telecommunications systems contracts		16,979,814	15,205,095
Sale of goods and services		4,596,106	6,014,967
		21,575,920	21,220,062
Other income			
Government grants		139,491	68,710
Service fees		15,379	22,968
VAT subsidies, exemptions and refunds#		456,015	395,424
Bank interest income		54,870	30,118
		665,755	517,220
Gains			
Excess over the cost of business combinations /negative goodwill recognised		12,236	4,770
Gain on disposal of short-term investments		—	12,139
Gain on deemed disposal of interests in a subsidiary	39	3,655	—
		15,891	16,909
		681,646	534,129

During the years ended 31 December 2004 and 2005, the Company received VAT subsidies on the amount of VAT paid for high-technology products as approved by the Shenzhen Economic and Trade Bureau (深圳市經濟貿易局), Shenzhen Science and Technology Bureau (深圳市科技局), Shenzhen Finance Bureau (深圳市財政局), Shenzhen State Tax Bureau (深圳市國家稅務局) and Shenzhen Local Tax Bureau (深圳市地方稅務局). In addition, for the years ended 31 December 2004 and 2005, Shenzhen Zhongxing Software Company, Limited ("Zhongxing Software"), being a designated software enterprise, was entitled to VAT refunds on the effective VAT rate in excess of 3% after the payment of statutory net output VAT of 17%. Such VAT refunds were approved by the Shenzhen State Tax Bureau (深圳市國家稅務局) and had been received by Zhongxing Software.

5. PROFIT BEFORE TAX

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

	Note	2005 RMB'000	2004 RMB'000 (Restated)
Cost of inventories sold		13,373,519	13,322,040
Depreciation	14	394,444	279,797
Less: Amount capitalised as deferred development costs		(7,585)	—
		386,859	279,797
Amortisation of intangible assets	16	82,735	79,846
Goodwill:			
Amortisation for the year*	17	—	4,696
Impairment arising during the year*	17	56,267	13,037
		56,267	17,733
Impairment of intangible assets	16	—	7,847
Loss on retirement and disposal of intangible assets	16	70	19,605
Provision for bad and doubtful debts*		15,642	100,027
Provision for warranties**	34	225,790	129,930
Provision against inventory obsolescence and net realisable value**		96,185	279,575
Minimum lease payments under operating leases on land and buildings		188,905	109,054
Auditors' remuneration		4,870	4,190
Staff costs (including directors' and supervisors' remuneration — note 7):			
Wages, salaries, bonuses, allowances and welfares		2,601,779	2,892,283
Pension scheme contributions:			
Defined benefits pension scheme — note 32		2,224	2,473
Defined contribution pension scheme		187,081	128,022
		2,791,084	3,022,778
Foreign exchange differences*		48,390	13,334
Loss on disposal of items of property, plant and equipment*		6,163	11,654
Loss on disposal of interests in subsidiaries*		2,057	—

* The amortisation and impairment of goodwill, provision for bad and doubtful debts, foreign exchange differences, loss on disposal of items of property, plant and equipment and loss on disposal of interests in subsidiaries are included in "Other operating expenses" on the face of the consolidated income statement.

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

6. FINANCE COSTS

	Group 2005 RMB'000	2004 RMB'000
Interest on bank loans wholly repayable within five years	36,042	75,056
Finance costs on trade receivables factored and bills discounted	139,842	65,341
	175,884	140,397

7. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, are as follows:

	Group 2005 RMB'000	2004 RMB'000
Fees	—	—
Other emoluments of executive directors and supervisors:		
Salaries, bonuses, allowances and welfare	3,037	3,073
Performance related bonuses	1,824	5,544
Retirement benefits scheme contribution	32	58
	4,893	8,675

(a) Independent non-executive directors

The salaries, bonuses, allowances and welfare paid to independent non-executive directors during the year were as follows:

	2005 RMB'000	2004 RMB'000
Zhu Wuxiang	60	60
Chen Shaohua	60	60
Tan Zhenhui	25	60
Mi Zhengkun	60	60
Li Jin	60	35
Qiao Wenjun	60	60
	325	335

There were no other emoluments payable to the independent non-executive directors during the year (2004:Nil).

7. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors, non-executive directors and supervisors

	Fees RMB'000	Salaries, bonuses, allowances and welfare RMB'000	Performance related bonuses RMB'000	Retirement benefits scheme contribution RMB'000	Total remuneration RMB'000
2005					
Executive directors:					
Yin Yimin	—	423	700	8	1,131
Shi Lirong	—	353	420	8	781
He Shiyou	—	387	250	2	639
	—	1,163	1,370	18	2,551
Non-executive directors:					
Hou Weigui	—	332	363	—	695
Wang Zongyin	—	60	—	—	60
Xie Weiliang	—	60	—	—	60
Zhang Junchao	—	60	—	—	60
Li Juping	—	60	—	—	60
Dong Lianbo	—	60	—	—	60
Tang Shanyi	—	25	—	—	25
	—	1,820	1,733	18	3,571
Supervisors:					
Zhang Taifeng	—	332	363	—	695
Wang Wangxi	—	321	294	8	623
He Xuemei	—	159	134	6	299
Qu Deqian	—	—	—	—	—
Wang Yan	—	—	—	—	—
Li Jinhu	—	20	—	—	20
Cao Quansheng	—	20	—	—	20
Li Huanru	—	20	—	—	20
Cui Hongwei	—	20	—	—	20
	—	892	791	14	1,697

7. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors, non-executive directors and supervisors (continued)

	Fees RMB'000	Salaries, bonuses, allowances and welfare RMB'000	Performance related bonuses RMB'000	Retirement benefits scheme contribution RMB'000	Total remuneration RMB'000
2004					
Executive directors:					
Yin Yimin	—	394	1,052	10	1,456
Shi Lirong	—	364	1,002	10	1,376
He Shiyou	—	373	1,022	9	1,404
	—	1,131	3,076	29	4,236
Non-executive directors:					
Hou Weigui	—	332	1,000	24	1,356
Li Juping	—	60	—	—	60
Dong Lianbo	—	60	—	—	60
Xie Weiliang	—	60	—	—	60
Zhang Junchao	—	60	—	—	60
Tan Shanyi	—	60	—	—	60
Wang Zongyin	—	60	—	—	60
	—	1,823	4,076	53	5,952
Supervisors:					
Zhang Taifeng	—	332	700	—	1,032
Wang Wangxi	—	242	497	4	743
He Xuemei	—	149	271	1	421
Cao Quansheng	—	48	—	—	48
Li Jinhu	—	48	—	—	48
Li Huanru	—	48	—	—	48
Cui Hongwei	—	48	—	—	48
	—	915	1,468	5	2,388

There was no arrangement under which directors and supervisors waived or agreed to waive any remuneration during the year.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2004: Nil) director, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining 4 (2004: 5) non-director and non-supervisor, highest paid employees for the year are as follows:

	2005 RMB'000	2004 RMB'000
Salaries, bonuses, allowances and welfare	4,145	833
Performance related bonuses	863	7,289
Retirement benefits scheme contribution	18	—
	5,026	8,122

The number of non-director, non-supervisor, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2005	2004
Nil to RMB1,000,000	—	—
RMB1,000,001 to RMB1,500,000	4	—
RMB1,500,001 to RMB2,000,000	—	5
	4	5

During the year, no director or supervisor waived or agreed to waive any emolument, and no emoluments were paid by the Group to the directors, supervisors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

9. TAX

	2005 RMB'000	2004 RMB'000 (Restated)
Group:		
Current — Hong Kong	5,726	5,735
Current — Mainland China		
Charge for the year	34,700	113,651
Overprovision in prior years	—	(52,513)
Current — Overseas	94,331	9,567
Deferred tax (note 35)	45,094	38,514
Total tax charge for the year	179,851	114,954

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

9. TAX (continued)

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

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

On 31 July 1997, ZTE Kangxun Telecom Company, Limited ("Kangxun"), a major subsidiary of the Company was approved by the Shenzhen Local Tax Bureau to be exempted from corporate income tax for two years and was granted a 50% relief in the three years thereafter starting from the first profitable year which was effective from 1 January 1997 until 31 December 2001. Kangxun was also certified as a high-technology enterprise on 1 August 2001. In December 2001, Kangxun obtained an approval from the Shenzhen Local Tax Bureau to extend the 50% relief from corporate income tax for a further three years effective from 1 January 2002 until 31 December 2004 during which Kangxun was subject to a corporate income tax rate of 7.5%. Kangxun is subject to a corporate income tax rate of 15% commencing from 1 January 2005.

As a designated software enterprise, Zhongxing Software, a major subsidiary of the Company was approved as a new software enterprise and entitled to full exemption from corporate income tax for two years and a 50% relief in the three years thereafter starting from the first profitable year which was effective from 1 January 2003 until 31 December 2007. The corporate income tax rate applicable to Zhongxing Software was 7.5% during the current year.

ZTE Mobile Tech Co., Ltd ("ZTE Mobile") is entitled to full exemption from corporate income tax for two years and a 50% relief in the three years thereafter starting from the first profitable year which was effective from 1 January 2005 until 31 December 2009. ZTE Mobile is entitled to full exemption from corporate income tax in the current year.

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	2005 RMB'000	2005 %	2004 RMB'000 (Restated)	2004 %
Profit before tax	1,605,805		1,594,788	
Tax at statutory tax rate	529,916	33.0	526,280	33.0
Lower tax rate for specific provinces or local authority	(289,045)	(18.0)	(287,117)	(18.0)
Expenses not deductible for tax	103,669	6.5	115,735	7.2
Income not subject to tax	(51,602)	(3.2)	(49,213)	(3.1)
Tax holiday	(89,482)	(5.5)	(202,910)	(12.7)
Profits and losses attributable to jointly-controlled entities and associates	625	—	(471)	—
Tax losses utilised from previous years	(5,702)	(0.4)	—	—
Other tax allowances	(41,558)	(2.6)	—	—
Tax losses of subsidiaries	23,030	1.4	12,650	0.8
Tax charge at the Group's effective rate	179,851	11.2	114,954	7.2

9. TAX (continued)

No share of tax attributable to jointly-controlled entities is included in "Share of profits and losses of jointly-controlled entities" on the face of the consolidated income statement (2004: RMB305,000).

No share of tax attributable to associates is included in "Share of profits and losses of associates" on the face of the consolidated income statement (2004: Nil).

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company, was approximately RMB1,084,317,000 (2004: RMB150,233,000) (note 37(b)).

11. DIVIDEND

	2005 RMB'000	2004 RMB'000
Proposed final — RMB0.25 (2004: RMB0.25) per ordinary share	239,880	239,880

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of basic earnings per share is based on the net profit for the year attributable to ordinary equity holders of the parent of RMB1,287,701,000 (2004: RMB1,272,489,000) and the weighted average number of 959,521,650 (2004: 810,759,661) ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 31 December 2005 and 2004 have not been presented as the Company did not have any dilutive potential ordinary shares during these years.

13. DISTRIBUTION OF PROFIT

In accordance with the PRC Company Law and the Company's articles of association, the Company and its subsidiaries registered in the PRC, except for Sino-foreign joint ventures, are required to appropriate 10% of the net profit after tax (after offsetting any prior years' losses) calculated in accordance with "Accounting Standards for Business Enterprises" and "Accounting System for Business Enterprises" and other related standards (collectively "PRC GAAP") to the statutory surplus reserve (except where the reserve balance has reached 50% of each entity's capital), and 5% to 10% to the statutory public welfare fund and, on an optional basis, the discretionary surplus reserve fund. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of capital after such usages. The statutory public welfare fund can only be utilised for collective benefits to the employees of the respective companies. The above reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends. The statutory surplus reserve and statutory public welfare fund were collectively presented as the statutory reserve fund in the financial statements.

The Company can distribute dividends based on the lower of the Company's retained profits determined under PRC GAAP or those under HKASs.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery, computer and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2005						
At 31 December 2004 and at 1 January 2005:						
Cost	650,152	60,020	1,845,110	158,541	115,574	2,829,397
Accumulated depreciation and impairment	(86,298)	(37,513)	(712,621)	(57,834)	—	(894,266)
Net carrying amount	563,854	22,507	1,132,489	100,707	115,574	1,935,131
At 1 January 2005, net of accumulated depreciation and impairment	563,854	22,507	1,132,489	100,707	115,574	1,935,131
Additions	4,642	12,948	614,462	66,183	271,950	970,185
Disposals	(9,279)	—	(17,672)	(5,170)	(15,434)	(47,555)
Acquisition of subsidiaries (note 38)	—	—	12,345	475	—	12,820
Disposal of subsidiaries (note 39)	—	—	(5,589)	(539)	—	(6,128)
Depreciation provided during the year	(29,399)	(11,870)	(337,518)	(15,657)	—	(394,444)
Transfers	219,759	—	11,594	—	(231,353)	—
Exchange realignments	(56)	—	871	141	—	956
At 31 December 2005, net of accumulated depreciation and impairment	749,521	23,585	1,410,982	146,140	140,737	2,470,965
At 31 December 2005:						
Cost	865,216	51,631	2,414,643	210,369	140,737	3,682,596
Accumulated depreciation and impairment	(115,695)	(28,046)	(1,003,661)	(64,229)	—	(1,211,631)
Net carrying amount	749,521	23,585	1,410,982	146,140	140,737	2,470,965

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery, computer and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000 (Restated)
31 December 2004						
At 1 January 2004:						
Cost	649,951	46,101	1,416,418	118,228	19,378	2,250,076
Accumulated depreciation and impairment	(51,769)	(31,647)	(551,795)	(41,969)	—	(677,180)
Net carrying amount	598,182	14,454	864,623	76,259	19,378	1,572,896
At 1 January 2004, net of accumulated depreciation and impairment	598,182	14,454	864,623	76,259	19,378	1,572,896
Additions	387	8,952	497,865	32,656	106,694	646,554
Disposals	—	—	(15,725)	(1,684)	—	(17,409)
Acquisition of subsidiaries	—	—	11,921	171	—	12,092
Depreciation provided during the year	(33,631)	(5,866)	(224,532)	(15,768)	—	(279,797)
Transfers	—	4,967	5,531	—	(10,498)	—
Reclassifications	(1,084)	—	(7,973)	9,057	—	—
Exchange realignments	—	—	779	16	—	795
At 31 December 2004, net of accumulated depreciation and impairment	563,854	22,507	1,132,489	100,707	115,574	1,935,131
At 31 December 2004 and at 1 January 2005:						
Cost	650,152	60,020	1,845,110	158,541	115,574	2,829,397
Accumulated depreciation and impairment	(86,298)	(37,513)	(712,621)	(57,834)	—	(894,266)
Net carrying amount	563,854	22,507	1,132,489	100,707	115,574	1,935,131

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery, computer and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2005						
At 31 December 2004 and at 1 January 2005:						
Cost	624,882	47,519	1,063,557	118,952	98,101	1,953,011
Accumulated depreciation and impairment	(73,842)	(34,143)	(410,418)	(41,604)	—	(560,007)
Net carrying amount	551,040	13,376	653,139	77,348	98,101	1,393,004
At 1 January 2005, net of accumulated depreciation and impairment	551,040	13,376	653,139	77,348	98,101	1,393,004
Additions	—	8,543	474,924	52,349	208,919	744,735
Disposals	(10,731)	—	(6,515)	(4,217)	(10,000)	(31,463)
Transfers from subsidiaries	—	—	20,931	618	—	21,549
Transfers to subsidiaries	—	—	(161,085)	(3,941)	—	(165,026)
Depreciation provided during the year	(29,043)	(10,307)	(191,498)	(13,346)	—	(244,194)
Transfers	219,759	—	—	—	(219,759)	—
Reclassifications	—	—	(544)	544	—	—
Exchange realignments	—	—	(99)	41	—	(58)
At 31 December 2005, net of accumulated depreciation and impairment	731,025	11,612	789,253	109,396	77,261	1,718,547
At 31 December 2005:						
Cost	833,910	34,724	1,385,321	154,964	77,261	2,486,180
Accumulated depreciation and impairment	(102,885)	(23,112)	(596,068)	(45,568)	—	(767,633)
Net carrying amount	731,025	11,612	789,253	109,396	77,261	1,718,547

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company (continued)

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery, computer and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000 (Restated)
31 December 2004						
At 1 January 2004:						
Cost	625,068	42,382	1,240,179	109,027	13,672	2,030,328
Accumulated depreciation and impairment	(40,814)	(29,473)	(487,305)	(38,657)	—	(596,249)
Net carrying amount	584,254	12,909	752,874	70,370	13,672	1,434,079
At 1 January 2004, net of accumulated depreciation and impairment	584,254	12,909	752,874	70,370	13,672	1,434,079
Additions	—	170	376,325	25,679	89,396	491,570
Disposals	—	—	(10,661)	(1,684)	—	(12,345)
Transfers from subsidiaries	—	—	10,319	—	—	10,319
Transfers to subsidiaries	—	—	(308,732)	(13,112)	—	(321,844)
Depreciation provided during the year	(32,130)	(4,670)	(160,332)	(11,639)	—	(208,771)
Transfers	—	4,967	—	—	(4,967)	—
Reclassifications	(1,084)	—	(6,660)	7,744	—	—
Exchange realignments	—	—	6	(10)	—	(4)
At 31 December 2004, net of accumulated depreciation and impairment	551,040	13,376	653,139	77,348	98,101	1,393,004
At 31 December 2004 and at 1 January 2005:						
Cost	624,882	47,519	1,063,557	118,952	98,101	1,953,011
Accumulated depreciationand impairment	(73,842)	(34,143)	(410,418)	(41,604)	—	(560,007)
Net carrying amount	551,040	13,376	653,139	77,348	98,101	1,393,004

As at 31 December 2005, the Group was in the process of obtaining the real estate title certificate for a building located in Shenzhen, the PRC, with a net book value of approximately RMB220,000,000, included in the Group's buildings.

Approximately RMB14,000,000 of the Group's construction in progress represented telecommunication equipments. The Group contributed such equipments through a subsidiary for a partnership arrangement with Algerie Telecom in operating a wireless network in Algeria. According to the respective contract, the Group's subsidiary will share certain portion of the profit generated from the wireless network for a period of five years and the ownership of these telecommunication equipments will be retained by the subsidiary during the five-year period, and will be transferred to Algerie Telecom for nil consideration. The equipments were accounted for as construction in progress as at 31 December 2005.

15. PREPAID LAND PREMIUMS/LAND LEASE PAYMENTS

Group

	2005 RMB'000	2004 RMB'000 (Restated)
Carrying amount at 1 January		
As previously reported	—	—
Effect of adopting HKAS 17 (note 2.2(a))	54,456	55,402
As restated	54,456	55,402
Additions during the year	3,341	414
Recognised during the year	(1,317)	(1,360)
Carrying amount at 31 December	56,480	54,456
Current portion	(1,418)	(1,361)
Non-current portion	55,062	53,095

The leasehold land is held under a medium term lease and is situated in the PRC.

Company

	2005 RMB'000	2004 RMB'000 (Restated)
Carrying amount at 1 January		
As previously reported	—	—
Effect of adopting HKAS 17 (note 2.2(a))	50,714	51,993
As restated	50,714	51,993
Additions during the year	1,241	—
Recognised during the year	(1,249)	(1,279)
Carrying amount at 31 December	50,706	50,714
Current portion	(1,300)	(1,279)
Non-current portion	49,406	49,435

The leasehold land is held under a medium term lease and is situated in the PRC.

As at 31 December 2005, the Group was in the process of obtaining the land use right certificates of certain pieces of land located in Shenzhen, Wuxi, and Anhui, the PRC, with net book values of approximately RMB2,500,000, RMB3,400,000 and RMB2,600,000, respectively.

16. INTANGIBLE ASSETS

Group

	Technology know-how RMB'000	Computer software RMB'000	Operating concession RMB'000	Deferred development costs RMB'000	Total RMB'000
31 December 2005:					
Cost at 1 January 2005, net of accumulated amortisation and impairment	683	108,902	31,877	66,487	207,949
Additions	1,067	35,512	29,774	148,000	214,353
Retirements and disposals	—	(70)	—	—	(70)
Acquisition of subsidiaries (note 38)	47	—	—	—	47
Disposals of subsidiaries (note 39)	—	(3,709)	—	—	(3,709)
Amortisation provided during the year	(441)	(44,527)	(5,387)	(32,380)	(82,735)
At 31 December 2005	1,356	96,108	56,264	182,107	335,835
At 31 December 2005:					
Cost	2,397	237,012	69,614	288,039	597,062
Accumulated amortisation and impairment	(1,041)	(140,904)	(13,350)	(105,932)	(261,227)
Net carrying amount	1,356	96,108	56,264	182,107	335,835
31 December 2004:					
At 1 January 2004:					
Cost	1,280	162,297	39,840	244,296	447,713
Accumulated amortisation and impairment	(469)	(65,936)	(5,971)	(116,793)	(189,169)
Net carrying amount	811	96,361	33,869	127,503	258,544
Cost at 1 January 2004, net of accumulated amortisation and impairment	811	96,361	33,869	127,503	258,544
Additions	—	48,856	—	7,847	56,703
Retirements and disposals	—	(838)	—	(18,767)	(19,605)
Amortisation provided during the year	(128)	(35,477)	(1,992)	(42,249)	(79,846)
Impairment during the year	—	—	—	(7,847)	(7,847)
At 31 December 2004	683	108,902	31,877	66,487	207,949
At 31 December 2004 and at 1 January 2005:					
Cost	1,280	209,421	39,840	140,039	390,580
Accumulated amortisation and impairment	(597)	(100,519)	(7,963)	(73,552)	(182,631)
Net carrying amount	683	108,902	31,877	66,487	207,949

16. INTANGIBLE ASSETS (continued)

Company

	Computer software RMB'000	Deferred development costs RMB'000	Total RMB'000
31 December 2005:			
Cost at 1 January 2005, net of accumulated amortisation and impairment	**93,348**	**66,487**	**159,835**
Additions	**33,342**	**148,000**	**181,342**
Retirements and disposals	**(190)**	**—**	**(190)**
Amortisation provided during the year	**(40,180)**	**(32,380)**	**(72,560)**
At 31 December 2005	**86,320**	**182,107**	**268,427**
At 31 December 2005:			
Cost	**219,783**	**288,038**	**507,821**
Accumulated amortisation and impairment	**(133,463)**	**(105,931)**	**(239,394)**
Net carrying amount	**86,320**	**182,107**	**268,427**
31 December 2004:			
At 1 January 2004:			
Cost	144,417	199,387	343,804
Accumulated amortisation and impairment	(61,906)	(79,175)	(141,081)
Net carrying amount	82,511	120,212	202,723
Cost at 1 January 2004, net of accumulated amortisation and impairment	82,511	120,212	202,723
Additions	43,945	—	43,945
Retirements and disposals	(838)	(13,848)	(14,686)
Amortisation provided during the year	(32,270)	(39,877)	(72,147)
At 31 December 2004	93,348	66,487	159,835
At 31 December 2004 and at 1 January 2005:			
Cost	186,631	140,038	326,669
Accumulated amortisation and impairment	(93,283)	(73,551)	(166,834)
Net carrying amount	93,348	66,487	159,835

17. GOODWILL

	Note	Group RMB'000
31 December 2005		
At 1 January 2005:		
Cost as previously reported		27,030
Effect of adopting HKFRS 3		(21,346)
Cost as restated		5,684
Accumulated amortisation and impairment as previously reported		(21,346)
Effect of adopting HKFRS 3		21,346
Accumulated amortisation and impairment as restated		—
Net carrying amount		5,684
Cost at 1 January 2005, net of accumulated impairment		5,684
Acquisition of a subsidiary	38	50,583
Impairment during the year		(56,267)
Cost and carrying amount at 31 December 2005		—
At 31 December 2005:		
Cost		56,267
Accumulated impairment		(56,267)
Net carrying amount		—
31 December 2004		
At 1 January 2004:		
Cost		24,884
Accumulated amortisation and impairment		(3,613)
Net carrying amount		21,271
Cost at 1 January 2004, net of accumulated amortisation and impairment		21,271
Acquisition of additional interests in a subsidiary		2,146
Amortisation provided for the year		(4,696)
Impairment during the year		(13,037)
At 31 December 2004		5,684
At 31 December 2004:		
Cost		27,030
Accumulated amortisation and impairment		(21,346)
Net carrying amount		5,684

As at 31 December, 2005, the directors reassessed the recoverable amount of goodwill arising on acquisition of subsidiaries. Due to continuous losses made by these subsidiaries, the directors, by discounting the future cash flow generated from the subsidiaries with reference to the average borrowing rate of the Group, considered the goodwill of approximately RMB56,267,000 was fully impaired.

18. INVESTMENTS IN SUBSIDIARIES

	Company 2005 RMB'000	Company 2004 RMB'000
Unlisted shares, at cost	517,218	532,297
Less: Provision for impairment	(108,350)	(136,014)
	408,868	396,283

The Company's trade receivable, other receivable, trade payable and other payable balances with the subsidiaries are disclosed in notes 24, 26, 29 and 30, to the financial statements respectively. The amounts due from/to subsidiaries are unsecured, interest-free and are repayable on demand.

Particulars of the principal subsidiaries are as follows:

Name	Place and date of incorporation/registration and operations	Nominal value of issued ordinary/registered share capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
ZTE Kangxun Telecom Company, Limited ("Kangxun")# (i) (深圳市中興康訊電子有限公司)	The PRC/ Mainland China 1 November 1996	RMB50,000,000	90	—	Manufacture and sale of electronic components
ZTE Soft Technology Co., Limited ("ZTE Soft") (ii) (南京中興軟創科技有限責任公司)	The PRC/ Mainland China 21 February 2003	USD7,231,029	76	—	Development, manufacture and marketing of computer software and digital equipment
Xian ZTE Jingcheng Communication Company, Limited ("Xian Jingcheng")# (i) (西安中興精誠通訊有限公司)	The PRC/Mainland China 21 May 2004	RMB15,000,000	70	—	Development, manufacture and marketing of information technology products and provision of related technical services
Shenzhen Zhongxing Software Company, Limited ("Zhongxing Software")# (ii) (深圳市中興軟件有限責任公司)	The PRC/Mainland China 9 July 2003	RMB50,000,000	70	25	Development of telecommunications systems software and provision of related consultancy services
Wuxi Zhongxing Optoelectronics Technologies Company, Limited ("Wuxi Zhongxing")# (i) (無錫中興光電子技術有限公司)	The PRC/Mainland China 31 January 2000	RMB10,000,000	65	—	Development of technology for optical electronic products and provision of related technical services
ZTE Integration Telecom Ltd.# (i) (深圳市中興集訊通信有限公司)	The PRC/Mainland China 27 June 2003	RMB55,000,000	75	5	Development, manufacture and sale of information technology products
ZTE Mobile Tech Co., Limited ("ZTE Mobile")# (i) (深圳市中興移動技術有限公司)	The PRC/Mainland China 12 September 2001	RMB33,333,000	95	—	Development, manufacture and sale of telecommunications related products

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows (continued):

Name	Place and date of incorporation/registration and operations	Nominal value of issued ordinary/registered share capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
ZTE do Brasil Ltd##* (中興通訊(巴西)有限責任公司)	Brazil 7 August 2002	USD200,000 Ordinary	100	—	Development, manufacture and sale of telecommunications related products and provision of related technical services
Congo-Chine Telecom S.A.R.L. ("Congo-Chine")## (剛中電信有限責任公司)	The Democratic Republic of Congo 14 November 2000	USD9,800,000 Ordinary	51	—	Construction and operation of telecommunications networks
Zhongxing Telecom Pakistan (Pvt.) Limited## (中興通訊巴基斯坦(私人)有限公司)	Islamic Republic of Pakistan 21 September 1998	Rupees37,919,043 Ordinary	93	—	Manufacture and sale of telecommunications systems equipment
ZTE (H.K.) Limited (中興通訊(香港)有限公司)	Hong Kong 27 October 2000	HKD50,000,000 Ordinary	100	—	Marketing and sale of telecommunications systems equipment and provision of management services
Anhui Wantong Posts and Telecommunications Company, Limited ("Anhui Wantong")# (i) (安徽皖通郵電股份有限公司)	The PRC/Mainland China 16 April 1997	RMB22,214,400	51	—	Development, manufacture and sale of computer software and integrated information systems
Shenzhen Changfei Investment Company, Limited ("Changfei")# (i) (深圳市長飛投資有限公司)	The PRC/Mainland China 6 February 2004	RMB30,000,000	51	—	Investment holding
Shanghai Zhongxing Telecom Equipment Technology & Service Company, Limited# (i) (上海中興通訊技術有限責任公司)	The PRC/Mainland China 10 May 2004	RMB10,000,000	51	—	Development, manufacture and sale of computer software and telecommunications systems equipment
Yangzhou Zhongxing Mobile Telecom Equipment Co., Limited# (i) (揚州中興移動通訊設備有限公司)	The PRC/Mainland China 30 July 2002	RMB6,000,000	65	—	Development, manufacture and sale of computer software and integrated information system
ZTE Microelectronics Technology Co., Ltd# (i) (深圳市中興微電子技術有限公司)	The PRC/Mainland China 28 November 2003	RMB15,000,000	—	81	Design, manufacture and sale of integrated circuit products
Shenzhen Kangquan Electromechanical Company, Limited ("Kangquan")# (iii) (深圳市康銓機電有限公司)	The PRC/Mainland China 2 June 2003	RMB16,000,000	—	29.33###	Sale of telecommunications systems equipment and provision of related technical services
Shenzhen Lead Communications Company, Limited ("Lead")# (iii) (深圳市立德通訊 器材有限公司)	The PRC/Mainland China 17 June 2003	RMB10,000,000	—	31.88###	Sale of telecommunications systems equipment and provision of related technical services

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows (continued):

Name	Place and date of incorporation/registration and operations	Nominal value of issued ordinary/registered share capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
Shenzhen Ruide Electronic Industrial Company, Limited# (iii) (深圳市睿德電子實業有限公司)	The PRC/Mainland China 27 April 2004	RMB8,700,000	—	29.31###	Sale of telecommunications systems equipment and provision of related technical services
Guangzhou Nanfang Telecommunications System Software Company Limited ("Guangzhou Nanfang Telecom")# (i) (廣州南方電信系統軟件有限公司)	The PRC/Mainland China 21 September 1999	RMB12,430,000	—	63.84	Development, manufacture and marketing of telecommunication systems software
ZiMax (Cayman) Holdings Ltd ("ZiMax")	Cayman Islands 13 August 2004	USD5,500,000 Ordinary	100	—	Investment holding
ZiMax Technologies Inc ("ZiMax Tech")	United States of America 2 June 2005	USD5,379,745 Ordinary	—	100	Research and development of telecommunications related products

(i) These subsidiaries are registered as limited companies under the PRC law.

(ii) These subsidiaries are registered as sino-foreign joint ventures under the PRC law.

(iii) The Group has unilateral controls over these subsidiaries.

The English names of these subsidiaries are directly translated from their Chinese names.

The Chinese names of these subsidiaries are directly translated from their registered names.

These subsidiaries are the subsidiaries of a non wholly-owned subsidiary of the Company, and accordingly, are accounted for as subsidiaries by virtue of the Company's control over them.

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particular of excessive length.

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

	Group		Company	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Unlisted shares, at cost	**—**	—	**2,500**	2,500
Share of net assets	**6,588**	7,786	**—**	—
	6,588	7,786	**2,500**	2,500

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

The Company's trade receivable, trade payable and other payable balances with a jointly-controlled entity are disclosed in notes 24, 29 and 30 to the financial statements respectively. The amounts due from/to the jointly-controlled entities are unsecured, interest-free and are repayable on demand.

Particulars of the principal jointly-controlled entities are as follows:

Name	Business structure	Place and date of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Beijing Zhongxing Telecom Ltd. ("Beijing Zhongxing")# (北京中興新通訊設備有限公司)	Corporate	The PRC 17 March 1998	RMB5,000,000	50	50	50	Sale of telecommunications systems equipment, computer network and peripheral devices and provision of consultancy and equipment leasing services
Bestel Communications Limited ("Bestel")	Corporate	Republic of Cyprus 28 May 2001	CYP600,000 Ordinary	50	50	50	Provision of telecommunications solutions and related consultancy services

The English names of this jointly-controlled entity is directly translated from its Chinese names.

The investment in Beijing Zhongxing is directly held by the Company while that of Bestel is held by a wholly owned subsidiary of the Company.

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	2005 RMB'000	2004 RMB'000
Share of the jointly-controlled entities' assets and liabilities		
Current assets	6,163	17,406
Non-current assets	2,530	973
Current liabilities	(2,105)	(8,672)
Non-current liabilities	—	—
Minority interests	—	(1,921)
Net assets	6,588	7,786
Share of the jointly-controlled entities' results		
Turnover	4,315	40,168
Other revenue	1,427	283
Total revenue	5,742	40,451
Total expenses	(6,940)	(36,056)
Tax	—	(305)
Minority interests	—	(985)
Profit/(loss) after tax	(1,198)	3,105

20. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted shares, at cost	**—**	—	**37,088**	4,013
Share of net assets	**35,583**	8,845	**—**	—
	35,583	8,845	**37,088**	4,013
Provision for impairment	**—**	—	**(12,381)**	—
	35,583	8,845	**24,707**	4,013

The Company's trade receivable, trade payable and other payable balances with associates are disclosed in notes 24, 29, 30 to the financial statements, respectively. The amount due from/to the associate is unsecured, interest-free and are repayable on demand.

Particulars of the principal associates are as follows:

Name	Business structure	Place and date of incorporation/registration and operations	Issued and paid-up capital/registered capital	Percentage of ownership interest attributable to the Group	Principal activities
Beijing Zhongxing Yuanjing Technology Co., Ltd. ("Beijing Yuanjing") #* (北京中興遠景科技有限公司)	Corporate	The PRC 18 October 2000	RMB10,000,000	30	Research and development of telecommunications related products
ZTE IC Design Co. Ltd ("ZTEIC Design") #* (深圳市中興集成電路設計有限責任公司)	Corporate	The PRC 20 March 2000	RMB64,000,000	40	Design, research, development and sale of integrated circuits and related electronical products
Shenzhen Weigao Semi-conductor Technology Co., Ltd. #* (深圳市微高半導體科技有限公司)	Corporate	The PRC 15 June 2004	RMB10,000,000	20.4	Design, research, development and sale of semi-conductor products
Wuxi Kaier Technology Co., Ltd. #* (無錫凱爾科技有限公司)	Corporate	The PRC 26 November 2004	RMB10,000,000	20.07	Development, manufacture and sale of camera lenses for mobile phone
Shenzhen Zhongxing Xinyu FPC Company Limited#* (深圳市中興新宇軟電路有限公司)	Corporate	The PRC 30 July 2003	RMB11,000,000	11.58**	Development, manufacture and sale of circuits; import and export of related products and technologies
Shenzhen Smart Electronics Ltd. ("Smart") #* (深圳市思碼特電子有限公司)	Corporate	The PRC 4 July 2005	HKD15,000,000	16.32**	Development, manufacture and sale of telecommunications related components

The English names of these associates are directly translated from their Chinese names.

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

** These associates are held through a non wholly-owned subsidiary of the Company of which these associates have significant influence over the board.

20. INVESTMENTS IN ASSOCIATES (continued)

The above table lists the associates of the group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The year end date for the financial statements of the above associates is coterminous with those of the Group.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2005 RMB'000	2004 RMB'000
Assets	**205,325**	34,226
Liabilities	**108,392**	1,540
Revenues	**169,154**	15,550
Profit	**7,543**	107

21. AVAILABLE-FOR-SALE EQUITY INVESTMENTS/LONG-TERM INVESTMENTS

	Group		Company	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Unlisted equity investments, at fair value	**43,288**	45,021	**41,288**	40,264
Provision for impairment	**—**	(674)	**—**	—
	43,288	44,347	**41,288**	40,264

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets on 1 January 2005 and have no fixed maturity date or coupon rate.

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

22. INVENTORIES

	Group		Company	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Raw materials	**1,248,645**	983,326	**782,628**	633,186
Work in progress	**532,923**	338,981	**287,420**	199,289
Finished goods	**458,759**	402,760	**208,044**	370,955
	2,240,327	1,725,067	**1,278,092**	1,203,430

23. TELECOMMUNICATIONS SYSTEMS CONTRACTS

	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Amount due from customers for contract work	**4,689,157**	2,752,024	**4,440,842**	3,414,540
Amount due to customers for contract work	**(733,455)**	(2,318,731)	**(688,876)**	(2,162,901)
	3,955,702	433,293	**3,751,966**	1,251,639
Contract costs incurred plus recognised profits less recognised losses to date	**19,420,235**	15,327,336	**16,346,089**	14,992,094
Less: Progress billings	**(15,464,533)**	(14,894,043)	**(12,594,123)**	(13,740,455)
	3,955,702	433,293	**3,751,966**	1,251,639

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

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

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

	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Within 6 months	**3,968,731**	4,252,421	**4,697,530**	4,901,198
7 to 12 months	**701,656**	1,453,143	**840,424**	1,116,903
1 to 2 years	**313,288**	194,940	**428,519**	193,718
2 to 3 years	**10,551**	5,609	**11,872**	43,213
Over 3 years	**215**	6,156	**39,724**	1,835
	4,994,441	5,912,269	**6,018,069**	6,256,867
Current portion of trade and bills receivables	**(4,686,775)**	(5,912,181)	**(5,690,947)**	(6,256,867)
Long-term portion	**307,666**	88	**327,122**	—

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

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

	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Subsidiaries	—	—	1,661,034	587,821
The ultimate holding company	177	169	8	—
A jointly-controlled entity	2,070	2,354	2,070	2,354
Associates	2,150	4,197	—	4,197
Related companies	13,314	7,151	3,071	3,087
	17,711	13,871	1,666,183	597,459

The maximum outstanding amount due from related companies for the Company and the Group during the year are RMB3,071,000 and RMB13,314,000 respectively.

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

Included in the year end trade receivable balance of approximately RMB771,876,000 (2004: RMB340,344,000) was pledged to banks as security for bank borrowings (note 31).

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

At 31 December 2005, the Company and a subsidiary of the Group factored trade receivables of RMB724,181,000 to banks on a without-recourse basis for cash. As the Company and the subsidiary of the Group still retained the risks and rewards associated with the delay in payment by the customers, the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled. Accordingly, bank advances from the factoring of the Group's trade receivables have been accounted for as liabilities in the consolidated balance sheet.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Prepayments	154,597	157,518	70,729	57,252
Deposits and other receivables	1,029,214	488,174	1,025,357	557,470
Due from subsidiaries	—	—	1,122,894	602,911
Due from related companies	4,502	5,609	4,502	4,894
Dividend receivable	—	—	16,465	1,871
	1,188,313	651,301	2,239,947	1,224,398

The maximum outstanding amount due from related companies for the Company and the Group during the year are RMB4,502,000 and RMB4,502,000 respectively.

The amounts due from subsidiaries and related companies are unsecured, interest-free and are repayable on demand.

27. LOAN RECEIVABLES

During the year, the Group granted two loans to its potential customers.

A loan of SEK43,000,000 (equivalent to approximately RMB44,015,000) bears interest at the STIBOR + 3% to 8%, repayable in March 2006 and are secured by certain properties and shares of the customer and the customer's subsidiary and guaranteed by the customer's immediate holding company. Another loan of EUR3,150,000 (equivalent to approximately RMB30,176,000) bears interest at the three months EURIBOR + 1% to 3%, repayable in four installments which will be fully repaid by February 2007 and is secured by the shares of the customer's immediate holding company and guaranteed by the customer's intermediate holding company. Subsequent to the balance sheet date, the SEK loan of approximately SEK15,621,000 (equivalent to approximately RMB15,989,000) and the first installment payment of EURO dollar loan were both overdue in March 2006 and February 2006, respectively, and the respective borrowers are in the process of negotiating with management for a two months deferred payment tenor. The executive directors had taken necessary measures with the potential customers to recover the loans receivable and in view of the securities on hand, are of the opinion that no provision is necessary for these loans receivable.

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

28. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

		Group		Company	
	Note	**2005 RMB'000**	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Cash and bank balances		**4,178,498**	4,775,748	**3,007,727**	3,766,385
Time deposits		**1,394,634**	2,822,475	**1,251,209**	2,696,780
		5,573,132	7,598,223	**4,258,936**	6,463,165
Less: Pledged bank deposits	31	**(175,899)**	(88,978)	**(46,126)**	(44,512)
Cash and cash equivalents		**5,397,233**	7,509,245	**4,212,810**	6,418,653

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi amounted to approximately RMB3,689,593,000 (2004: RMB2,386,274,000). The Renminbi is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and pledged deposits approximates to their fair values.

29. TRADE AND BILLS PAYABLES

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

	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Within 6 months	**6,049,126**	4,180,450	**8,418,896**	6,688,650
7 to 12 months	**142,100**	61,260	**3,698**	25,512
1 to 2 years	**45,968**	68,391	**11,343**	5,934
2 to 3 years	**5,506**	8,200	**3,778**	4,997
Over 3 years	**27,092**	22,810	**19,738**	23,509
	6,269,792	4,341,111	**8,457,453**	6,748,602

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

	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Subsidiaries	—	—	**8,248,272**	5,135,686
The ultimate holding company	**104,563**	51,168	—	—
Related companies	**125,867**	78,166	**2,975**	3,426
Associates	**15,557**	—	—	—
A jointly-controlled entity	**182**	—	—	—
	246,169	129,334	**8,251,247**	5,139,112

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

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

30. OTHER PAYABLES AND ACCRUALS

		Group		Company	
	Note	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Receipts in advance		860,106	310,360	492,673	260,970
Other payables		940,784	958,086	637,286	718,953
Accruals		847,861	1,313,173	562,147	924,997
Provision for warranties	34	248,998	186,227	248,998	186,227
Due to the ultimate holding company		313	313	313	313
Due to subsidiaries		—	—	647,775	512,665
Due to a jointly-controlled entity		1,024	—	1,024	—
Due to associates		765	—	765	—
Due to related companies		286	—	—	—
		2,900,137	2,768,159	2,590,981	2,604,125

The other payables are non-interest-bearing and have an average term of three months. The balances due to the ultimate holding company, subsidiaries, a jointly-controlled entity, associates and related companies are unsecured, interest-free and are repayable on demand.

31. INTEREST-BEARING BANK BORROWINGS

			Group		Company	
	Effective interest rate (%)	Maturity	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Current						
Bank loans — Unsecured	5.58–6.138	2006	552,000	60,099	500,000	—
Bank loans — Secured	4.96	2006	47,695	361,596	—	340,344
			599,695	421,695	500,000	340,344
Non-current						
Other loans — Unsecured	3.78–6.21	2007	80,000	1,025,262	—	950,000
			679,695	1,446,957	500,000	1,290,344

31. INTEREST-BEARING BANK BORROWINGS (continued)

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**599,695**	421,695	**500,000**	340,344
In the second year	**80,000**	677,262	**—**	650,000
In the third to fifth years, inclusive	**—**	348,000	**—**	300,000
	679,695	1,446,957	**500,000**	1,290,344

The Group and the Company's secured bank loans or banking facilities were secured by:

		Group		Company	
		2005	2004	**2005**	2004
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Pledged deposits	28	**175,899**	88,978	**46,126**	44,512
Trade receivables		**771,876**	340,344	**688,605**	340,344
		947,775	429,322	**734,731**	384,856

Certain of the Group and Company's unsecured bank loans were guaranteed by:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Other banks or government	**580,000**	580,000	**500,000**	500,000

The bank loans are fixed-rate borrowings which carry interest at a rate of 3.78% per annum.

The carrying amounts of the Group's and the Company's borrowings approximate their fair values.

32. PROVISION FOR RETIREMENT BENEFITS

The Group and the Company provide certain of the eligible staff with post-retirement benefits pursuant to a retirement benefits plan. The plan is funded solely by the Group on an actual payment basis.

The latest actuarial valuation of the plan was conducted at 31 December 2005 in accordance with HKAS 19 "Employee Benefits" by qualified actuaries of Watson Wyatt Hong Kong Limited. The present value of defined benefits obligations and current service costs are determined actuarially based on the projected unit credit method, which involves a number of assumptions and estimates including the rate of inflation, discount rate, employees' turnover ratio as well as mortality rate. Actuarial gains/(losses) are recognised by amortising the amount by which cumulative unrecognised gains/(losses) exceed 10% of the greater of the assets of the plan and the defined benefits obligation over the average expected future working lifetime of the active members of the plan.

32. PROVISION FOR RETIREMENT BENEFITS (continued)

The benefits obligations recognised in the balance sheet are as follows:

Group and Company

	2005 RMB'000	2004 RMB'000
Present value of the obligations	**54,577**	39,046
Unrecognised actuarial losses	**(24,118)**	(10,123)
Net liability in the balance sheet	**30,459**	28,923

Movements in the net liability recognised in the balance sheet during the year are as follows:

	2005 RMB'000	2004 RMB'000
Net liability at beginning of year	**28,923**	27,190
Benefits expenses recognised in the consolidated income statement	**2,224**	2,473
Pension payments made	**(688)**	(740)
Net liability at end of year	**30,459**	28,923

The principal assumptions used in determining the pension benefits obligations are shown below:

	2005	2004
(a) Discount rate	**3.5%**	5%

(b) The expected rate of increase in salaries ranged from 1% to 7.5% per annum, which was based on the number of years of employment.

The benefits expense recognised in the consolidated income statement for the year is as follows:

	2005 RMB'000	2004 RMB'000
Current service cost	**—**	—
Interest cost on benefits obligations	**1,935**	1,581
Net actuarial losses recognised in the year	**289**	892
Benefits expense included in staff costs — note 5	**2,224**	2,473

33. OTHER LONG-TERM PAYABLES

Other long-term payables represent government grants which are unsecured, interest-free and have no fixed terms of repayment.

34. PROVISION FOR WARRANTIES

	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
At beginning of year	**186,227**	160,573	**186,227**	157,819
Additional provisions	**225,790**	129,930	**225,790**	129,930
Amounts utilised during the year	**(163,019)**	(104,276)	**(163,019)**	(101,522)
At 31 December 2005	**248,998**	186,227	**248,998**	186,227

In respect of telecommunications systems contracts, the Group and the Company provide warranties to their customers for twelve months after contract completion dates, during which free repair and maintenance services are provided. A provision for warranties is made at 2% to 2.5% of the cost of equipment sold during the year, and is estimated based on the equipment return rate and past experience of the level of repairs and maintenance. The estimation is reviewed on an ongoing basis and revised where appropriate.

In respect of handsets, the Group and the Company generally provide a one-year warranty to their customers under which faulty products would be repaired or replaced. The amount of provision for warranties is estimated based on sales volume and past experience of the level of repairs and return.

35. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Deferred tax assets:				
At beginning of year	**104,681**	143,195	**76,475**	90,135
Deferred tax credit to the income statement during the year (note 9)	**(45,094)**	(38,514)	**(21,362)**	(13,660)
At end of year	**59,587**	104,681	**55,113**	76,475

35. DEFERRED TAX (continued)

	Group		Company	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Deferred tax assets:				
Provision against inventories	**39,069**	53,015	**39,069**	50,636
Provision for warranties	**37,350**	33,934	**37,350**	33,934
Provision for retirement benefits	**4,569**	4,350	**4,569**	4,350
Unrealised profit arising on consolidation	**4,474**	25,827	**—**	—
Deferred tax liabilities:				
Intangible assets	**(26,614)**	(9,973)	**(26,614)**	(9,973)
Government grants	**739**	(2,472)	**739**	(2,472)
Deferred tax assets, net	**59,587**	104,681	**55,113**	76,475

At 31 December 2004 and 2005, there was no significant unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, jointly-controlled entities and associates as the Group has no liability to additional tax should such amounts be remitted.

36. SHARE CAPITAL

	2005 RMB'000	2004 RMB'000
Registered, issued, and fully paid		
State-owned A shares of RMB1.00 each	**392,080**	462,273
Legal person A shares of RMB1.00 each	**29,724**	35,044
Individual A shares of RMB1.00 each	**377,567**	302,054
H shares of RMB1.00 each	**160,151**	160,151
	959,522	959,522

Pursuant to a resolution at an extraordinary general meeting held on 16 December 2005, the existing individual A share shareholders are compensated by the existing non-tradable share shareholders with 2.5 shares for each 10 shares held, immediately after the conversion of non-tradable shares or state-owned shares to tradable A shares. The total number of shares of the Company remain unchanged after the share reform.

Each of the Company's owners of non-tradable shares undertakes not to transfer or trade the listed shares, which are converted from the original non-tradable shares, held by it within 12 months from the date of shares deemed tradable on the Shenzhen Stock Exchange on 29 December 2005.

Zhongxingxin, the ultimate holding company of the Group, further undertakes not to sell its original non-tradable shares amounting to more than five percent and ten percent of the total share capital of the Company during the period from the 13th month to 24th month and the period from the 25th month to 36th month subsequent to their listing on the Shenzhen Stock Exchange on 29 December 2005 respectively.

Zhongxingxin further provides specific undertaking that where it sells its shares during the period from the 13th month to the 24th month after such shares have been granted the right of listing and circulation on the Shenzhen Stock Exchange, the price at which the shares are sold shall not be lower than the mathematical average of the closing prices of its A Shares for the 60 trading days prior to the first announcement of the Share Reform Plan by the Board, that is, RMB26.75 per share. The proceeds from any sale in breach of such undertaking shall be reverted to the Company's account for the benefit of all shareholders of the Company.

37. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 185 of the financial statements.

The capital reserves of the Group include the non-distributable reserves of the Company and its subsidiaries created in accordance with accounting and financial regulations in the PRC.

In accordance with the PRC Company Law and the Company's articles of association, the Company and its subsidiaries registered in the PRC are required to appropriate certain percentage of the statutory net profit after tax to the statutory reserve fund. Subject to certain restrictions set out in the relevant PRC regulations and in the subsidiaries' articles of association, the statutory reserve fund may be used either to offset losses, or for capitalisation issues by way of paid-up capital. The reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

(b) Company

	Note	Issued share capital RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2004		667,296	2,079,104	476,376	1,543	627,278	200,188	4,051,785
Final 2003 dividend declared		—	—	—	—	—	(200,188)	(200,188)
Issue of H shares		160,151	3,574,571	—	—	—	—	3,734,722
Conversion of state-owned equity interest shares		(1,384)	(29,475)	—	—	—	—	(30,859)
Transfer from/(to) retained profits		—	—	174,342	—	(174,342)	—	—
Issue of bonus shares		133,459	—	—	—	(133,459)	—	—
Share issue expenses		—	(161,685)	—	—	—	—	(161,685)
Net profit for the year		—	—	—	—	150,233	—	150,233
Proposed final 2004 dividend	11	—	—	—	—	(239,880)	239,880	—
Exchange realignments		—	—	—	2,018	—	—	2,018
At 31 December 2004 and 1 January 2005		959,522	5,462,515	650,718	3,561	229,830	239,880	7,546,026
Final 2004 dividend declared		—	—	—	—	—	(239,880)	(239,880)
Transfer from/(to) retained profits		—	—	118,885	—	(118,885)	—	—
Net profit for the year		—	—	—	—	1,084,317	—	1,084,317
Proposed final 2005 dividend	11	—	—	—	—	(239,880)	239,880	—
Exchange realignments and other income recognised directly in equity		—	5,306	—	(3,509)	—	—	1,797
At 31 December 2005		959,522	5,467,821	769,603	52	955,382	239,880	8,392,260

At 31 December 2005, the Company had retained profits of approximately RMB955,382,000 (2004: RMB229,830,000), after the appropriation of proposed final dividend, as determined in accordance with the lower of the amount determined under PRC GAAP or HKASs, available for distribution by way of cash in kind.

38. BUSINESS COMBINATIONS

In April 2005, ZTEsoft, a subsidiary of the Group, acquired 54% of equity interests in Guangzhou Nanfang Telecom for a cash consideration of approximately RMB8.3 million. Guangzhou Nangfang Telecom is engaged in the development, manufacture and marketing of telecommunications systems software.

In April 2005, Shanxi Zhongxing Telecom Equipment Company, Limited, formerly a 51% owned subsidiary of the Group, was divested and the Group's respective share of its net asset of RMB5.6 million was contributed as capital injection to Xian Jingcheng in exchange for a 34% shareholding of Xian Jingcheng. In November 2005, the Group further acquired 36% equity interest of Xian Jingcheng for cash consideration of approximately RMB5.8 million. Xian Jingcheng is engaged in development, manufacture and marketing of information technology products and the provision of related technical services.

In August 2005, ZiMax, a subsidiary of the Group, acquired 100% of equity interests in ZiMax Tech. ZiMax Tech is engaged in research and development of telecommunications related products. The consideration for the acquisition was approximately RMB43.4 million in cash.

The carrying value of the identifiable assets and liabilities of Guangzhou Nanfang Telecom, Xian Jingcheng and ZiMax Tech, in the opinion of the directors, approximates to their estimated fair value and as at the date of acquisition immediately before the acquisition were as follows:

	Notes	Carrying amount RMB'000
Property, plant and equipment	14	12,820
Intangible assets	16	47
Inventories		17,401
Cash and bank balances		6,065
Trade receivables		34,308
Prepayments and other receivables		24,574
Short-term loan		(3,000)
Trade payables		(5,184)
Accruals and other payables		(46,863)
Minority interests		(19,115)
		21,053
Goodwill on acquisitions	17	50,583
Excess over the cost of business combinations recognised in the income statement		(8,525)
		63,111
Satisfied by:		
Cash		57,514
Interest in a jointly-controlled entity		5,597
		63,111

38. BUSINESS COMBINATIONS (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	RMB'000
Cash consideration	(57,514)
Cash and bank balances acquired	6,065
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(51,449)

Since their acquisition, the aforesaid subsidiaries contributed approximately RMB28 million to the Group's turnover and a loss of approximately RMB42 million to the consolidated profit for the year ended 31 December 2005.

Had the combinations been taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been approximately RMB21,598 million and approximately RMB1,399 million, respectively.

39. DISPOSAL OF INTERESTS IN SUBSIDIARIES

	Notes	2005 RMB'000	2004 RMB'000
Net assets disposed of:			
Property, plant and equipment	14	6,128	—
Intangible assets	16	3,709	—
Available-for-sale investment		1,582	—
Inventories		11,013	—
Cash and bank balances		31,552	—
Trade receivables		26,399	—
Prepayments and other receivables		5,880	—
Trade payables		(14,833)	—
Short-term loan		(9,990)	—
Accruals and other payables		(35,517)	—
Minority interests		(11,555)	—
		14,368	—
Loss on disposal of interests in subsidiaries		(1,198)	—
Gain on deemed disposal of interests in a subsidiary	4	3,655	—
		16,825	—
Satisfied by:			
Cash		328	—
Reclassification from interests in subsidiaries to interests in associates		10,900	—
Reclassification from interests in subsidiaries to interests in jointly-controlled entities		5,597	—
		16,825	—

39. DISPOSAL OF INTERESTS IN SUBSIDIARIES (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of interests in subsidiaries is as follows:

	RMB'000
Cash consideration	328
Cash and bank balances disposed of	(31,552)
Net outflow of cash and cash equivalents in respect of the disposal of interests in subsidiaries	(31,224)

The results of the subsidiaries disposed of in the year ended 31 December 2005 had no significant impact on the Group's consolidated turnover or profit after tax for the year.

40. CONTINGENT LIABILITIES

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

Group and Company

	2005 RMB'000	2004 RMB'000
Discounted bills	—	440,885
Factored trade receivables	438,490	691,744
Guarantees given to banks in respect of performance bonds	2,823,760	1,626,070
	3,262,250	2,758,699

(b) On 26 April 2000, the Company approved and declared an one-off share bonus of approximately RMB34 million and RMB30 million to its then employees who had elected to participate in a Deferred Share Bonus Scheme (the "DSBS") with a term of either three years or five years. Pursuant to the DSBS, the total amount of bonus payable to each qualified employee was used to purchase a total of 1,884,250 A shares of the Company during 2001 and these A shares were locked up for a period of either three years or five years under the three years DSBS and five years DSBS until 20 April 2004 and 20 June 2006, respectively. The Company has guaranteed the employees that, upon disposal of these shares in 2004 and 2006, respectively, the disposal price would not be less than approximately RMB18.5 per share, after being adjusted for the Company's bonus issues in 2001, 2003 and 2004.

As at 31 December 2005, a total of 2,600,849 A shares are subject to the guaranteed disposal price.

In the opinion of the directors, any resulting liabilities arising from the guaranteed disposal price under the DSBS would not have material adverse impact on the Group's financial statements. Therefore, no provision in respect of such guarantee has been made in the financial statements.

40. CONTINGENT LIABILITIES (continued)

(c) On 3 November 2005, a Jiangsu Provincial Higher People's Court action was commenced by a customer against a subsidiary of the Group and the Company in respect of a claim for return of advance payment, accrued interests and compensating losses of approximately RMB71 million in aggregate. As at the date of approval of these financial statements, no decision had been made in the court proceedings. In the opinion of the directors, based on legal advice from the Company's lawyer engaged for this action, the subsidiary of the Group and the Company have valid defences against such claims and any resulting liabilities would not have any material adverse impact on the Group's financial position. Therefore, no provision in respect of such claims was made in the financial statements.

(d) During the year, the subsidiary of the Group in Pakistan has commenced a defence action against the Collectorate of Customs, Sales Tax and Central Excise (Adjudication/Appeals), Rawalpindi in respect of a claim by the latter of additional custom duties of approximately Rs.177 million (equivalent to approximately RMB23.9 million) and a penalty of approximately Rs.2.4 billion (equivalent to approximately RMB324 million) for an alleged misdeclaration of imported goods in the Customs, Central Excise and Sales Tax Appellate Tribunal, Islamabad, Pakistan. On 5 September 2005, all disputes between the parties relating to this action were referred to Alternate Dispute Resolution Committee ("the Committee") for resolution and the Committee has recommended in favour of the subsidiary of the Group.

As at the approval date of these financial statements, no decision has been made in the Tribunal. The directors estimated that the maximum financial impact to the Group relating to additional custom duties would be in the order of approximately Rs.36 million (equivalent to approximately RMB4.8 million) and have been accrued in the Group's financial statements for the year ended 31 December 2005. In the opinion of the directors, based on legal advice from the Company's lawyer engaged for this action, the subsidiary of the Group has valid defences, against the aforesaid claims and any resulting liabilities would not have material adverse impact on the Group's financial position. Therefore, no further provision in respect of custom duties penalty was considered necessary to be made in the financial statements.

(e) On 16 December 2005, an arbitration was commenced by a foreign supplier against the Company in respect of claims for breach of contract and infringement of intellectual property rights in the amount of approximately USD36,450,000 (equivalent to approximately RMB294.2 million) in aggregate.

As at the approval date of these financial statements, no arbitral award or other decision by the tribunal has been made on the claims. In the opinion of the directors, based on legal advice from the Company's lawyer engaged for the action, the Company has valid defences against the claims brought in the arbitration, the directors currently believe that the outcome of the arbitration would not have a material adverse impact on the Group's financial position. Therefore, no provision in respect of such claims has been made in the financial statements.

(f) On 18 August 2005, the Company received a notice of arbitration from a foreign consultant in respect of (i) a claim of consultancy fee of approximately USD90,000 (equivalent to approximately RMB726,000); (ii) a claim of agency fee of approximately USD1,190,314 (equivalent to approximately RMB9,606,000); (iii) a compensation claim of approximately USD50,000 (equivalent to approximately RMB404,000) for harassment and undue delay in honoring of a consultancy agreement.

As at the approval date of these financial statements, no decision had been made in the arbitration. In the opinion of the directors, based on legal advice from the Company's lawyer engaged for this action, the Company has valid defences, against such claims and any resulting liabilities would not have material adverse impact on the Group's financial position. Therefore, no provision in respect of such claims was made in the financial statements.

Save as disclosed above, as at 31 December 2005, the Company and the Group had no material contingent liabilities.

41. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in note 31 to the financial statements.

42. OPERATING LEASE ARRANGEMENTS

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

At 31 December 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2005 RMB'000	2004 RMB'000
Within one year	97,047	74,350
In the second to fifth years, inclusive	79,109	67,542
After five years	7,269	7,431
	183,425	149,323

43. COMMITMENTS

In addition to the operating lease commitments detailed in note 42 above, the Group had the following commitments at the balance sheet date:

Capital commitments

	2005 RMB'000	2004 RMB'000
Land and buildings:		
Authorised, but not contracted for	—	—
Contracted, but not provided for	231,561	282,446
	231,561	282,446
Investment in an associate:		
Contracted, but not provided for	21,065	—

44. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC GAAP AND HKASs

Ernst & Young is responsible for the audit of the Group's and the Company's financial statements prepared under HKASs.

The effects on the net profit and the shareholders' equity arising from material differences between the consolidated financial statements prepared under PRC GAAP and those under HKASs are summarised as follows:

	Notes	2005 RMB'000	2004 RMB'000
Net profit			
Net profit from ordinary activities attributable to shareholders under PRC GAAP		**1,194,343**	1,008,870
Add back/(deduct):			
Accounting standards differences			
Recognition of government grants	(i)	**(8,881)**	38,630
Recognition of deferred bonuses	(ii)	—	(127,951)
Provision for retirement benefits	(iii)	**(1,536)**	(1,733)
Deferred development costs	(iv)	**115,621**	(38,763)
Recognition of excess over the cost of business combinations	(v)	**9,460**	—
Deferred tax	(vi)	**(21,306)**	—
Other differences			
Difference in accounting estimates in respect of revenue recognised using the percentage of completion method for telecommunications systems contracts	(vii)	—	(668,042)
Recognition of income tax and deferred tax	(vi)	—	94,881
Difference in accounting estimates in respect of provision for trade receivables, other receivables and prepayments and net realisable value of inventories	(viii)	—	553,402
Consolidation of subsidiaries	(ix)	—	112,653
Estimated useful lives of fixed assets	(x)	—	132,988
Accrual of performance bonuses	(xi)	—	167,554
Profit attributable to equity holders of the parent under HKASs		**1,287,701**	1,272,489

44. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC GAAP AND HKASs (continued)

	Notes	31 December 2005 RMB'000	31 December 2004 RMB'000
Shareholders' equity			
Shareholders' equity under PRC GAAP		10,125,095	9,174,439
Add back /(deduct):			
Accounting standards differences			
Recognition of government grants	(i)	(4,926)	5,149
Provision for retirement benefits	(iii)	(30,459)	(28,923)
Deferred development costs	(iv)	182,108	66,487
Deferred tax	(vi)	(21,306)	—
Equity attributable to equity holders of the parent under HKASs		10,250,512	9,217,152

(i) Government grants

Government grants for specific research and development projects are accounted for as specific payables under PRC GAAP. Whereas under HKASs, such grants are accounted for as deferred income in the other payable or other long-term payable accounts.

Under PRC GAAP, research and development costs are recognised as technology development costs in inventory to the extent of the granted amounts, and the specific payables thereof will be transferred to the inventory account to offset the technology development costs upon completion of the projects.

Under HKASs, the deferred income is recognised as income over the periods necessary to match the grants on a systematic basis to the costs that they are intended to compensate.

(ii) Recognition of deferred bonuses

Under PRC GAAP, there is no specific standard, regulation or rule for the recognition of deferred bonuses. All the deferred bonuses are expensed as declared irrespective of whether or not the employee has qualified to be entitled to such bonuses.

Under HKASs, the deferred bonuses are recognised when the employee qualifies for the bonuses and the deferred bonuses charged to the income statement over the required service period.

(iii) Provision for retirement benefits

Under PRC GAAP, there is no specific standard, regulation or rule for the recognition of post-retirement benefits under defined retirement benefits plan. The costs of post-retirement benefits are expensed as incurred.

Under HKASs, the costs of providing these benefits under the defined retirement benefits plan are actuarially determined and recognised over the employees' service period.

44. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC GAAP AND HKASs (continued)

(iv) Deferred development costs

Under PRC GAAP, all research and development costs are charged to the income statement as incurred.

Under HKASs, expenditures incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

(v) Excess over the cost of business combinations

Under PRC GAAP, excess over the cost of business combination is credited to capital reserves.

Under HKASs, any excess of the Group's interest in the net fair value of the acquirees' identifiable assets and liabilities over the cost of acquisition of such acquirees (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

(vi) Income tax and deferred tax

Deferred tax is recognised to account for the effect of any temporary differences arising from the accounting differences between PRC GAAP and HKASs in the preparation of the Group's financial statements under PRC GAAP and HKASs.

(vii) Revenue recognition using the percentage of completion method

In the preparation of the financial statements under PRC GAAP for the year ended 31 December 2004, the stage of completion relating to the revenue recognition for telecommunications systems contracts is revised to be estimated by reference to the completion of the physical proportion of the work or the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Subsequent to the change of accounting estimates for the preparation of financial statements under PRC GAAP, there are no differences between the telecommunications systems contracts recorded under PRC GAAP and HKASs.

(viii) Provisions

In the preparation of the financial statements under PRC GAAP for the year ended 31 December 2004, the Group had changed its accounting estimates during the year in respect of the provisions for trade receivables, other receivables and prepayments and net realisable value of inventories.

Subsequent to the change of accounting estimates for the preparation of financial statements under PRC GAAP, there are no differences between the provisions accounted for under PRC GAAP and HKASs.

(ix) Consolidation of subsidiaries

The differences represent historic discrepancies on the carrying values of interests in subsidiaries recorded by the Company under PRC GAAP as compared to the shareholders' equity and current account balances recorded in the financial statements of individual subsidiaries prepared under PRC GAAP or HKASs.

44. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC GAAP AND HKASs (continued)

(x) Estimated useful lives of fixed assets

In the preparation of the financial statements under PRC GAAP for the year ended 31 December 2004, the Group had changed its accounting estimates during the year in respect of the useful lives of certain fixed assets.

Subsequent to the change of accounting estimates for the preparation of financial statements under PRC GAAP, there are no differences between the depreciation charged under PRC GAAP and HKASs.

(xi) Accrual of performance bonuses

Performance bonuses were accrued upon approval in the preparation of the financial statements under HKASs. Such performance bonuses were only charged to the income statement upon actual payment in 2004 and included in the financial statements prepared under PRC GAAP for the year ended 31 December 2004.

45. RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material related party transactions during the year:

Name of company	Nature of transaction	Notes	2005 RMB'000	2004 RMB'000 (Restated)
The ultimate holding company				
Zhongxingxin and its subsidiaries, associates and jointly-controlled entities# 中興新及其附屬子公司，聯營公司及 共同控制企業	Purchase of raw materials	(a)	437,920	446,559
	Sale of finished goods	(b)	558	43,803
Shareholders of the ultimate holding company				
Shenzhen Zhongxing WXT Equipment Company, Ltd and its subsidiaries, associates and jointly-controlled entities# 深圳中興維先通設備有限公司及其附屬子公司，聯營公司及共同控制企業	Purchase of raw materials	(a)	184,326	122,375
	Sale of finished goods	(e)	5,233	4,562
Xian Microelectronics Technology Research Institute and its subsidiaries, associates and jointly-controlled entities# 西安微電子技術研究所及其附屬子公司，聯營公司及共同控制企業	Purchase of raw materials	(a)	23,881	19,404
	Sale of finished goods	(e)	14,388	35,045
	Corporate guarantee	(d)	—	58,000
Jointly-controlled entities				
Beijing Zhongxing Telecom Ltd 北京中興新通訊設備有限公司	Purchase of raw materials	(a)	89	267
	Sale of finished goods	(b)	3,248	10,904
	Acquisition of a 19% equity interest in ZTE ITS Limited	(c)	1,024	—
ZTE ITS Limited 中興智能交通系統(北京)工程有限公司	Sale of finished goods	(b)	4,265	16,591

45. RELATED PARTY TRANSACTIONS (continued)

(I) Transactions with related parties (continued)

Name of company	Nature of transaction	Notes	2005 RMB'000	2004 RMB'000 (Restated)
Associates				
Beijing Yuanjing Technology Co., Ltd.# 北京中興遠景科技有限公司	Sale of finished goods	(b)	2,815	13,945
ZTEIC Design Co., Ltd.# 深圳市中興集成電路設計有限責任公司	Purchase of raw materials	(a)	36,830	—
	Sale of finished goods	(e)	9,025	—
Wuxi Kaier Technology Company Ltd. 無錫凱爾科技有限公司	Purchase of raw materials	(a)	11,957	—
Shenzhen Decang Technology Company Limited# 深圳市德倉科技有限公司	Purchase of raw materials	(e)	5,874	—
Entity controlled by key management personnel of the Group				
Chung Hing (Hong Kong) Development Company Limited# 中興香港發展有限公司	Purchase of raw materials	(a)	8,166	1,500
Shareholder of a subsidiary				
The Government of the Democratic Republic of Congo	Corporate guarantee	(d)	80,000	80,000

\# The English names of these companies are directly translated from their Chinese names.

In the opinion of the directors, the above transactions were conducted in the ordinary course of business.

The transactions with related parties for the year ended 31 December 2004 have been restated to exclude the effect of VAT. In the opinion of the directors, such restatement can better reflect the related parties transactions in the financial statement.

Notes:

(a) The purchases of raw materials were made in accordance with published prices and conditions similar to those offered by the suppliers to their major customers.

(b) The sales of finished goods were made in accordance with published prices and conditions offered to major customers of the Group.

(c) During the year, Beijing Zhongxing Telecom Limited, the Group's 50% owned jointly-controlled entity, disposed its 70% equity interests in ZTE ITS Limited, of which 19% of the disposed interests was acquired by the Company for a cash consideration of RMB1,024,000. Subsequent to the disposal of 70% equity interests in ZTE ITS Limited by Beijing Zhongxing Telecom Limited, ZTE ITS Limited, which was formerly a jointly-controlled entity of the Group, became a 19% owned available-for-sale investment of the Group.

(d) The guarantees in respect of bank borrowings were provided by related parties at nil consideration.

(e) The purchase and sale prices of the goods were determined at rates mutually agreed between the Group and related parties.

45. RELATED PARTY TRANSACTIONS (continued)

(II) Outstanding balance with related parties:

(i) Details of the Group's trade balances with ultimate holding company, jointly-controlled entities, associates and other related parties as at balance sheet date are disclosed in notes 24 and 29 to the financial statements.

(ii) Details of the Group's balances of payable and receivable which are not trading nature with ultimate holding company, jointly-controlled entities, associates and other related parties as at balance sheet date are disclosed in notes 26 and 30 to the financial statements.

(III) Compensation of key management personnel of the Group

	2005 RMB'000	2004 RMB'000
Short term employee benefits	4,875	6,716
Post-employment benefits	53	29
Total compensation paid to key management personnel	4,928	6,745

Included in the transactions with Zhongxingxin, the Group's ultimate holding company, and its subsidiaries, associates and jointly-controlled entities, approximately RMB431 million of the transaction constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors reviews and agrees policies for managing each of these risks and they are summarised as follows:

Interest rate risk

At 31 December 2005, the bank loans of the Group and the Company are all fixed rate debts. The Group and the Company have no significant concentration of interest rate risk.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is predominately in USD and RMB and certain portion of the bank loans is denominated in USD. The Group tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sales contracts. The Group takes rolling forecast on foreign currency revenue and expenses, matches the currency and amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, and trade receivables, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is minimal.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans. In addition, banking facilities have been put in place for contingency purposes.

47. POST BALANCE SHEET EVENTS

There were no significant events after 31 December 2005.

48. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified and restated to conform to the current year's presentation.

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 6 April 2006.