

CONSOLIDATION BALANCE SHEET

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

	Note V	31 Dec, 2006	31 Dec, 2005
Current assets			
Cash in banks and on hands	1	4,311,060	5,573,132
Short-term investment	2	16,693	—
Notes receivable	3	1,658,406	1,244,853
Dividend receivable		1,136	—
Trade receivables	4	5,329,628	3,441,922
Factored trade receivables	5	152,848	36,416
Other receivables	6	439,904	279,975
Accounts prepaid	7	51,757	151,174
Inventories	8	2,760,995	2,519,547
Amount due from customers for contract work	9	5,833,480	4,689,157
Total current assets		20,555,907	17,936,176
Long-term investment			
Long-term equity investments	10	100,681	85,459
Total long-term investments		100,681	85,459
Fixed assets			
Fixed assets — cost	11	4,234,574	3,623,940
Less: accumulated depreciation	11	1,555,714	1,148,789
Net fixed assets	11	2,678,860	2,475,151
Less: fixed assets impairment provision	11	87,002	94,980
Fixed assets — net book value	11	2,591,858	2,380,171
Construction in progress	12	469,636	126,741
Total fixed assets		3,061,494	2,506,912
Intangible and other assets			
Intangible assets	13	152,859	160,264
Long-term trade receivables	4	372,703	307,666
Factored long-term trade receivables	5	1,399,206	687,765
Long-term deferred assets	14	40,416	13,996
Total intangible and other assets		1,965,184	1,169,691
Deferred tax			
Deferred tax assets	15	233,683	80,893
TOTAL ASSETS		25,916,949	21,779,131

Notes on page 110 to page 164 form an integral part of these financial statements.

CONSOLIDATION BALANCE SHEET

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

	Note V	31 Dec, 2006	31 Dec, 2005
Current liabilities			
Short-term loans	16	945,726	99,695
Bank advances on factored trade receivables	5	152,848	36,416
Notes payable	17	2,242,566	1,977,584
Trade payables	18	4,749,099	4,292,208
Amount due to customers for contract work	9	996,275	733,455
Advances from customers	19	635,875	861,024
Accrued payroll		668,307	622,804
Welfare payable		298,430	394,216
Dividend payable	20	83,941	163,008
Taxes payable	21	(699,658)	(670,282)
Other levies		8,891	7,134
Other payables	22	666,430	626,066
Accrued expenses	23	387,619	346,668
Provision	24	35,680	20,035
Long-term loans due within 1 year	25	—	500,000
Total current liabilities		11,172,029	10,010,031
Non-current liabilities			
Long-term loans	26	1,679,242	80,000
Bank advances on factored long-term trade receivables	5	1,399,206	687,765
Specific payables	27	425,669	405,511
Total non-current liabilities		3,504,117	1,173,276
Total liabilities		14,676,146	11,183,307
Minority interests			
Minority interests		561,892	470,729
Owner's equity:			
Share capital	28	959,522	959,522
Capital surplus	29	5,509,666	5,506,424
Surplus reserves	30	1,331,059	1,264,060
Undistributed profits	31	2,767,616	2,171,190
Exchange differences		(32,880)	(15,981)
Proposed final dividend		143,928	239,880
Total owner's equity		10,678,911	10,125,095
TOTAL LIABILITIES AND OWNER'S EQUITY		25,916,949	21,779,131

Notes on page 110 to page 164 form an integral part of these financial statements.

Legal Representative:
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Finance Division:
Shi Chunmao

CONSOLIDATED INCOME STATEMENTS & STATEMENTS OF INCOME DISTRIBUTION

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

	Note V	2006	2005
Revenue from principal operations	32	23,031,684	21,575,920
Less: Cost of sales	32	15,171,797	13,944,797
Taxes and surcharges	33	111,360	105,660
Profit from principal operations		7,748,527	7,525,463
Add: Profit from other operations	34	69,152	15,779
Less: Operating expenses		3,140,108	3,023,126
General and administrative expenses		4,010,206	3,137,066
Finance expenses	35	239,617	288,751
Operating profit		427,748	1,092,299
Add: Investment income	36	31,849	(59,354)
Subsidy income	37	612,163	458,014
Non-operating income	38	24,008	27,627
Less: Non-operating expenses	39	26,151	16,722
Total profit		1,069,617	1,501,864
Less: Income tax		125,624	158,545
Minority interests		136,640	148,976
Net profit		807,353	1,194,343
Add: Undistributed profits at beginning of year		2,171,190	1,495,431
Distributable profit		2,978,543	2,689,774
Less: Statutory surplus reserves		66,999	278,704
Profit available for distribution to owners		2,911,544	2,411,070
Less: Proposed final dividend		143,928	239,880
Undistributed profits at year-end		2,767,616	2,171,190

Supplemental Information

Item	2006	2005
1. Gains received from sale or disposal of business departments or investee units	—	—
2. Losses resulting from natural disaster	—	—
3. Increase (or decrease) in total profit as a result of changes in accounting policies	—	—
4. Increase (or decrease) in total profit as a result of changes in accounting estimates	—	145,920
5. Losses resulting from debt restructuring	—	—
6. Others	—	—

Notes on page 110 to page 164 form an integral part of these financial statements.

Legal Representative:
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Wei Zaisheng

Head of Finance Division:
Shi Chunmao

CONSOLIDATED CASH FLOW STATEMENT

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

Items	Note V	2006	2005
1. Cash flows from operating activities			
Cash received from sale of goods or rendering of services		21,600,437	21,315,221
Cash received from taxes returned		1,404,449	458,014
Cash received relating to other operating activities		131,464	119,215
Sub-total of cash inflow		23,136,350	21,892,450
Cash paid for goods and services		17,685,647	13,915,822
Cash paid to and on behalf of employees		3,514,280	2,793,854
Payments of taxes and levies		1,265,754	1,679,312
Cash paid relating to other operating activities	40	2,225,655	3,326,157
Sub-total of cash outflow		24,691,336	21,715,145
Net cash flows from operating activities		(1,554,986)	177,305
2. Cash flows from investing activities			
Cash received from sale of investments		22,766	331
Net cash received from the disposal of subsidiaries		—	(31,555)
Cash received from gains of investment		23,265	—
Net cash received from disposal of fixed asset, intangible assets and other long-term assets		20,851	41,372
Sub-total of cash inflow		66,882	10,148
Cash paid to acquire fixed asset, intangible assets and other long-term assets		1,181,162	921,463
Cash paid for acquisition of equity investments		48,889	72,955
Cash paid relating to other investing activities		394	—
Sub-total of cash outflow		1,230,445	994,418
Net cash flow from investing activities		(1,163,563)	(984,270)

Notes on page 110 to page 164 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

Items	Note V	2006	2005
3. Cash flows from financing activities			
Cash received from investment		30,366	25,227
Cash received from borrowings		3,093,148	108,695
Sub-total of cash inflow		3,123,514	133,922
Cash paid for debt repayments		1,147,875	869,867
Cash payments for distribution of dividends and interest expenses		509,886	459,553
Sub-total of cash outflow		1,657,761	1,329,420
Net cash flow from financing activities		1,465,753	(1,195,498)
4. Effect of foreign exchange rate changes on cash		(9,276)	(22,628)
5. Net increase (decrease) in cash and cash equivalents		(1,262,072)	(2,025,091)

Notes on page 110 to page 164 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

Items	2006	2005
1. Reconciliation of net profit to cash flows from operating activities		
Net profit	807,353	1,194,343
Add: Minority interests	136,640	148,976
Provision for impairment of assets	199,116	362,300
Depreciation of fixed assets	503,301	394,984
Amortization of intangible assets	49,564	51,009
Amortization of long-term prepaid expenses	—	1,616
Decrease in prepaid expenses	—	478
Increase in accrued expenses (less: decrease)	56,596	78,134
Losses on disposal of fixed assets, intangible assets and other long-term assets (less: gains)	(2,660)	(909)
Losses on retirement of fixed assets	17,545	7,072
Finance expense	173,840	175,884
Losses on investment	(31,849)	59,354
Deferred tax credit (less: debit)	(152,790)	23,732
Decrease in inventories (less: increase)	(381,185)	(866,316)
Equity settled share expense	2,480	—
Increase in operating receivable items	(3,612,469)	(2,015,438)
Increase in operating payable items	679,532	562,086
Net cash flows from operating activities	(1,554,986)	177,305
2. Net increase (decrease) in cash and cash equivalents		
Cash at end of year	4,311,060	5,573,132
Less: Cash at beginning of year	5,573,132	7,598,223
Net decrease in cash and cash equivalents	(1,262,072)	(2,025,091)

Notes on page 110 to page 164 form an integral part of these financial statements.

Legal Representative:
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Finance Division:
Shi Chunmao

BALANCE SHEET

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

ASSETS	Note V	31 Dec, 2006	31 Dec, 2005
Current assets			
Cash in banks and on hands		2,957,920	4,258,936
Notes receivable		1,617,133	1,209,151
Dividends receivable		817,631	16,465
Trade receivables	4	5,753,208	4,481,796
Factored trade receivables		275,830	5,007
Other receivables	6	1,220,098	1,230,352
Accounts prepaid		20,619	67,305
Inventories		1,458,946	1,557,312
Amount due from customers for contract work		5,809,647	4,440,842
Total current assets		19,931,032	17,267,166
Long-term investment			
Long-term equity investments	10	2,632,569	2,833,305
Total long-term investments		2,632,569	2,833,305
Fixed assets			
Fixed assets-cost		2,510,628	2,491,000
Less: accumulated depreciation		811,658	712,768
Net fixed assets		1,698,970	1,778,232
Less: fix assets impairment provision		87,002	87,002
Fixed assets-net book value		1,611,968	1,691,230
Construction in progress		402,430	77,261
Total fixed assets		2,014,398	1,768,491
Intangible and other assets			
Intangible assets		78,456	87,081
Long-term trade receivables	4	328,166	327,122
Factored long-term trade receivables		1,394,970	683,598
Total intangible and other assets		1,801,592	1,097,801
Deferred taxes			
Deferred taxes assets		217,307	76,419
TOTAL ASSETS		26,596,898	23,043,182

Notes on page 110 to page 164 form a part of these financial statements.

BALANCE SHEET

(Prepared under PRC GAAP)
 (All amounts in RMB'000 unless otherwise stated)
 (English translation for reference only)

LIABILITIES AND OWNER'S EQUITY	Note V	31 Dec, 2006	31 Dec, 2005
Current liabilities			
Short-term loans		741,827	—
Bank advances on factored trade receivables		275,830	5,007
Notes payable		2,187,595	1,918,831
Trade payables		6,704,325	6,538,622
Amount due to customers for contract work		991,612	688,876
Advances from customers		513,954	493,438
Accrued payroll		396,952	367,583
Welfare benefits payable		238,962	326,370
Dividend payable		378	928
Taxes payable		(618,142)	(844,875)
Other levies		2,401	2,996
Other payables		767,107	1,084,091
Accrued expenses		254,739	286,561
Provision		13,000	16,000
Long-term loans due within 1 year		—	500,000
Total current liabilities		12,470,540	11,384,428
Non-current liabilities			
Long-term loans		1,329,478	—
Bank advances on factored long-term trade receivable		1,394,970	683,598
Other long-term liabilities		373,800	359,220
Total non-current liabilities		3,098,248	1,042,818
Total liabilities		15,568,788	12,427,246
Owner's equity:			
Share capital		959,522	959,522
Capital surplus		5,536,137	5,532,896
Surplus reserves		769,603	769,603
Undistributed profits		3,622,498	3,116,070
Exchange differences		(3,578)	(2,035)
Proposed final dividend		143,928	239,880
Total owner's equity		11,028,110	10,615,936
TOTAL LIABILITIES AND OWNER'S EQUITY		26,596,898	23,043,182

Notes on page 110 to page 164 form an integral part of these financial statements.

Legal Representative:
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INCOME STATEMENTS & STATEMENTS OF INCOME DISTRIBUTION

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

	Note V	2006	2005
Revenue from principal operations	32	21,215,583	20,565,052
Less: Cost of sales	32	18,846,594	16,671,822
Taxes and surcharges		44,080	56,009
Profit from principal operations		2,324,909	3,837,221
Add: Profit from other operations		684,036	149,282
Less: Operating expenses		2,291,774	2,360,822
General and administrative expenses		1,929,543	1,451,749
Finance expenses		285,112	294,898
Operating loss		(1,497,484)	(120,966)
Add: Investment income	36	2,106,953	919,713
Subsidy income		44,223	8,259
Non-operating income		10,011	19,834
Less: Non-operating expenses		13,095	6,321
Total profit		650,608	820,519
Less: Income tax		252	27,953
Net profit		650,356	792,566
Add: Undistributed profits at beginning of year		3,116,070	2,682,269
Distributable profit		3,766,426	3,474,835
Less: Statutory surplus reserves		—	118,885
Profit available for distribution to owners		3,766,426	3,355,950
Less: Proposed final dividend		143,928	239,880
Undistributed profits at year-end		3,622,498	3,116,070

Notes on page 110 to page 164 form an integral part of these financial statements.

Legal Representative:
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CASH FLOW STATEMENT

(Prepared under PRC GAAP)
 (All amounts in RMB'000 unless otherwise stated)
 (English translation for reference only)

Items	2006	2005
1. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	20,378,716	22,269,031
Cash received from taxes returned	810,891	8,259
Cash received relating to other operating activities	91,495	205,278
Sub-total of cash inflow	21,281,102	22,482,568
Cash paid for goods and services	19,211,544	18,549,739
Cash paid to and on behalf of employees	1,503,266	1,788,552
Payments of taxes and levies	161,113	724,097
Cash paid relating to other operating activities	2,145,255	1,756,749
Sub-total of cash outflow	23,021,178	22,819,137
Net cash flows from operating activities	(1,740,076)	(336,569)
2. Cash flows from investing activities		
Cash received from sale of investments	9,430	331
Cash received from gains of investment	9,196	2,621
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	3,942	172,186
Sub-total of cash inflow	22,568	175,138
Cash paid to acquire fixed asset, intangible assets and other long-term assets	778,177	796,746
Cash paid for equity investment	6,340	43,552
Sub-total of cash outflow	784,517	840,298
Net cash flow from investing activities	(761,949)	(665,160)

Notes on page 110 to page 164 form an integral part of these financial statements.

CASH FLOW STATEMENT

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
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Items	2006	2005
3. Cash flows from financing activities		
Cash received from borrowings	2,626,523	—
Sub-total of cash inflow	2,626,523	—
Cash paid for debt repayments	1,055,218	790,344
Cash payments for distribution of dividends and interest expenses	363,718	407,651
Sub-total of cash outflow	1,418,936	1,197,995
Net cash flow from financing activities	1,207,587	(1,197,995)
4. Effect of foreign exchange rate changes on cash	(6,578)	(4,505)
5. Net increase (decrease) in cash and cash equivalents	(1,301,016)	(2,204,229)

Notes on page 110 to page 164 form an integral part of these financial statements.

CASH FLOW STATEMENT

(Prepared under PRC GAAP)
 (All amounts in RMB'000 unless otherwise stated)
 (English translation for reference only)

Items	2006	2005
1. Reconciliation of net profit to cash flows from operating activities		
Net profit	650,356	792,566
Add: Provision for impairment of assets	147,489	236,168
Depreciation of fixed assets	267,920	392,118
Amortization of intangible assets	42,062	16,004
Increase in accrued expenses (less: decrease)	(34,822)	38,075
Losses on retirement of fixed assets	11,366	3,558
Finance expense	128,322	167,779
Losses on investment	(2,106,953)	(919,713)
Deferred tax debit	(140,888)	—
Decrease in inventories	98,366	(335,921)
Equity settled share expense	2,480	—
Increase in operating receivable items	(3,079,468)	(2,171,944)
Increase in operating payable items	2,273,694	1,444,741
Net cash flows from operating activities	(1,740,076)	(336,569)
2. Net increase (decrease) in cash and cash equivalents		
Cash at end of year	2,957,920	4,258,936
Less: Cash at beginning of year	4,258,936	6,463,165
Net increase (decrease) in cash and cash equivalents	(1,301,016)	(2,204,229)

Notes on page 110 to page 164 form an integral part of these financial statements.

Legal Representative:
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Wei Zaisheng

Head of Finance Division:
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NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
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I. COMPANY BACKGROUND

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

In 2003, Shenzhen Zhaoke Investment Development Co., Limited transferred its entire shareholdings in the company to Shenzhen Gaotejia Venture Investment Co., Limited. The time of the share transfer was already more than three years from the date of establishment of the company and was therefore in compliance with the applicable provision under the Company Law. In December 2003, Shenzhen Gaotejia Venture Investment Co., Limited transferred its entire shareholdings in the Company to Fortune Trust & Investment Co., Ltd. Fortune Trust & Investment Co., Ltd. transferred its entire shareholdings in the Company to Jade Dragon (Mauritius) Company Limited in November 2005.

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

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

On 28 December 2005, the share reform plan of the Company was formally implemented and completed. On the first trading day subsequent to the implementation of the share reform plan, all original non-tradable shares held by non-tradable shareholders of the Company obtained the right of listing and circulation. As at 31 December 2006, the total accumulated share capital in issue of the Company was 959,522,000 shares. Please see Notes V.28 for details.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS

The financial information set out in the financial statements was prepared in accordance with the following principal accounting policies and accounting estimates which were proposed in accordance with Accounting Standards for Business Enterprises and "Accounting System for Business Enterprises" and other related supplementary regulations as issued by China.

1. Accounting system

The Group has implemented Accounting Standards for Business Enterprises and "Accounting System for Business Enterprises".

2. Financial year

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

3. Reporting currency

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

4. Recording basis and accounting

The Company adopted the accrual basis as the basis of accounting. All items were recorded at historical cost.

5. Foreign currency transaction

Foreign currency transactions are translated into the reporting currency at the exchange rates quoted by the People's Bank of China (or SAFE) prevailing at the beginning of the month.

At the end of the year, balance of foreign currency accounts is adjusted at the mid-point exchange rates quoted at the end of the year. Exchange differences arising from these translations are recorded in the current income statement as profit or loss from exchange differences. Foreign exchange gain or loss arising from special borrowings in foreign currency to finance the acquisition or construction of fixed assets are dealt with according to the principle of the capitalization of borrowing costs.

6. Foreign currency translation

All assets and liabilities were translated to Renminbi at the exchange rates prevailing at the balance sheet date; shareholders' equity, with the exception of "undistributed profit", was translated at the exchanged rates prevailing at the transaction date; "undistributed profit" was recorded based on the amount stated on the statement of income and profit appropriation after translation adjustments; differences arising from the difference between total translated assets and the sum of total translated liabilities and translated shareholders' equity were dealt with in the exchange fluctuation reserve as a separate allocation of 'exchange differences'. All statement of income and profit appropriation items were translated at the average exchange rates during the year. All cash flow statement items were translated at exchange rates prevailing at the balance sheet date. All opening balances and last year actual amounts were stated at last year's translated amounts.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
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II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

7. Cash equivalents

Cash equivalents represent short-term highly liquid investments that are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value.

8. Short-term investments

Short-term investments refer to those investments that can be realized at any time and that are intended to be held for less than one year. They included stocks, bonds and investment funds. Short-term investments were initially accounted for at cost. Declared but unpaid cash dividends and interest on bonds, which had been accrued at the time of acquisition, are separately accounted for as receivables and are not included in the cost of short-term investments.

Cash dividends and interest on short-term investments earned during the holding period are netted off against the book value of the investment (as a return of the investment cost) when received, except for those recorded as receivables upon acquisition of the investments.

Upon disposal, the difference between the book value and the proceeds on disposal is recorded as a gain or loss for the current period. The cost of the investments disposed of is determined on an individual item basis.

Short-term investments are carried at the lower of cost and market value. Provisions for impairment in value of short-term investments are determined on an individual item basis, and the resulting gain or loss is recognised in the current period.

9. Bad debts provision

(1) Recognition criteria for bad debts:

- the irrecoverable amount of a bankrupt or deceased debtor who had insufficient assets or estate to repay the debt;
- the irrecoverable receivables, supported by evident characteristics, of a debtor who was unable to comply with the repayment obligation after the debt fell due.

(2) The Group has adopted the provision method to account for bad debt losses, whereby specific and general provisions are made to account for possible bad debt losses expected to be incurred. A specific provision refers to a bad debt provision based on management's assessment of the recoverability of individual receivables. A general provision refers to a bad debt provision made by the management, other than the specific provision, on the year-end balances of other receivables and accounts prepaid based on the ageing analysis.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

9. Bad debts provision (continued)

(3) Provision for expenses on other receivables is made as follows:

Ageing	Percentage of provision for bad debts (%)	Remark
1-2 months	—	Applicable to other receivables arising from domestic operations
Over 2 months	100%	Applicable to other receivables arising from domestic operations
1-3 months	—%	Applicable to other receivables arising from overseas operations
3-4 months	58%	Applicable to other receivables arising from overseas operations
4-5 months	75%	Applicable to other receivables arising from overseas operations
5-6 months	92%	Applicable to other receivables arising from overseas operations
Over 6 months	100%	Applicable to other receivables arising from overseas operations

10. Inventories

Inventories include raw materials, work-in-progress, finished goods, materials for construction-in-progress and materials sub-contracted for processing, etc. Inventories are finished goods or merchandise held by an enterprise for sale in the ordinary course of business, or work in progress in the process of production for such sale, or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are recorded at actual costs and recognised using the weighted moving average method when dispatched. Cost of finished products and work in progress comprise direct materials, direct labour and an appropriate proportion of manufacturing overheads.

Inventories are valued using the perpetual inventories system. Inventories at the end of the year were stated at the lower of cost or net realizable value. Provision for impairment of inventories was made on the basis of individual categories in respect of any shortfall where the net realizable value was lower than cost. Net realizable values represent estimated selling prices less any estimated costs to be incurred to completion, estimated selling expenses and relevant tax amounts.

Pursuant the Reply on Accounting for Expenses by Technology Research and Development Projects Designated by the State (Cai Kuai Bian [2002] No.36) issued by the Accounting Department of the Ministry of Finance, expenses incurred by the Company in the research and development of products designated by the State using government grants shall be deemed as pooling of costs and expenses of products manufactured by the Company and accounted for as technology development costs.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

11. Construction contract works

The amount of construction contract works represents costs incurred to date and recognised gross profit (loss) less progress billings. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labor, construction machinery costs, other direct costs and an appropriate proportion of construction overheads. The amount of contract costs incurred to date plus recognised gross profit (loss) in excess of progress billings is recognised as an asset; whereas, the amount of progress billings in excess of contract costs incurred to date plus recognised gross profit (loss) is recognised as liabilities.

The proportion of construction contract work completion is the contract costs incurred to date as a percentage of estimated total contract costs.

Provision for anticipated contract losses is made in respect of contracts for which the amount of estimated total contract costs exceeded estimated total contract revenue to the extent of the difference between the amount of estimated total contract costs in excess of estimated total contract revenue and recognised losses.

Upon the realization of anticipated contract losses in contracts for which estimated losses had been provided for, the estimated contract losses provided for would be written back and the actual amount of loss would be recognised.

12. Long-term investments

Long-term equity investments are recorded at initial investment cost on acquisition.

The cost method is used in accounting for long-term equity investments where the Company has no control or jointly-control or significant influence over the investee company; the equity method is used in accounting for long-term equity investments where the Company has control or jointly-control or significant influence over the investee company.

When the equity method is adopted, the amount of initial cost of the investment in excess of the investor's share of the owner's equity in the investee company is regarded as an equity investment, the difference is amortized over a period of no more than 10 years (including the 10th year). The amount of initial cost of the investment falling short of the investor's share of the owner's equity in the investee company is credited to the capital reserve. In the event where the corresponding investment took place before 17 March 2003, it is included in the difference of long-term equity investments and amortized by equal installments over a period of no less than 10 years.

When the equity method is adopted, the Group should, after the acquisition of the equity investment, adjust the book value of the investment according to its attributable share of the investee enterprise's net profit or loss and recognise it accordingly, either as an investment income or a loss in the current period. The Group recognise net losses incurred by the investee enterprise to the extent that the book value of the investment was reduced to zero.

When the cost method is adopted, profit or cash dividends declared to be distributed by the investee enterprise should be recognised as an investment income in the current period after the investment was acquired by the Group. The excess should be treated as a recovery of investment cost.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

12. Long-term investments (continued)

At the end of the year, long-term investments were measured at the lower of the book value and the recoverable amount. Provision for impairment of long-term investments is made on the basis of individual categories in respect of any shortfall where the recoverable amount is lower than cost and set-off against the equity investment component in the capital reserve. Shortfall would be dealt with in the current profit and loss.

13. Fixed assets

Fixed assets represent tangible assets held for the purposes of production of products, provision of services, leasing or operational use. They are of relatively high value and have useful lives exceeding 1 year.

Fixed assets are recognised at cost. The cost of purchasing fixed assets comprise the purchase price, tax payments (such as value-added tax and import tariffs) and other expenses incurred in bringing fixed assets to the expected state for use that are directly attributable to the asset, such as transportation and installation fees. Subsequent expenses relating to fixed assets are charged to fixed assets to the extent of the excess of possible inflow of economic benefits into the enterprise resulting from such expenses over original estimates.

Depreciation is provided on fixed assets using the straight-line method, the estimated useful lives, estimated residual value and annual depreciation rate of each category of fixed assets are as follows:

	Estimated useful life	Estimated residual value	Annual depreciation rate
Leasehold improvement	5 years	0%	20%
Buildings (excluding temporary plants)	30 years	5%	3.17%
Buildings — temporary plants	3 years	5%	31.67%
Machinery equipment	5–10 years	5%	9.5%–19%
Electronic equipment	5 years	5%	19%
Motor vehicles	10 years	5%	9.5%
Other equipment	5 years	5%	19%

At the end of the period, fixed assets are measured at the lower of the book value and the recoverable amount. The difference between the recoverable amount and the book value of the fixed asset is recognised as an impairment provision and charged to the current period's profit and loss. Recoverable amount referred to the higher of the net selling price and the value in use of the fixed asset. Value in use referred to the present value of estimated future cash flows expected to arise from the continuing use of the fixed asset and from its disposal at the end of its useful life. Impairment provisions for fixed assets were made on an individual basis.

14. Construction in progress

Construction in progress represents the necessary costs incurred in the purchase and construction of fixed assets in bringing construction from its preparation stage to its working condition. Costs comprise direct materials, direct labor, equipment cost, installation and management fee, net profit or loss from trial run and borrowing costs for capitalization.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

14. Construction in progress (continued)

Until such time as the assets are completed and put into operational use, construction-in-progress is recognised as a fixed asset.

Provision for construction-in-progress impairment should be made and be recognised in the income statement in the event that construction has stopped already for a long time and is estimated not to be restarted in the next 3 years or; economic return on the construction was ultimately uncertain with inferior construction quality and backward technology.

15. Intangible assets

Intangible assets are recorded at the actual cost on acquisition.

Intangible assets are amortized by equal installments over its estimated useful lives, the beneficial period stipulated by the related contract or the effective period stipulated by applicable laws (whichever the shorter). The amortization periods of intangible assets are as follows:

Category	Amortization period
Patent technology	10 years
Operating concession	20 years
Land use rights	50 years
Software	5 years

At the end of the year, intangible assets are measured at the lower of the book value and the recoverable amount. Any excess of the book value of the asset over the expected recoverable amount is recognised as an impairment provision and is charged to the income statement in the current year.

16. Recognition of revenue

Telecommunications systems contracts

Operating income from telecommunications systems contracts is recognised by reference to the estimated completion based on the proportion of costs incurred to date to the estimated total cost of the relevant contract and costs would be accounted for where the total revenue and total costs could be measured reliably and where transaction-related amounts are allowed to pass into the Company, and costs would be accounted for accordingly.

Sales of goods:

Revenue from sales of goods is recognised when the significant risks in connection with the ownership of the product and the payment has been transferred to the buyer, and the Group no longer has custody and control over the product if the economic benefits flowed to the Group.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

16. Recognition of revenue (continued)

Supply of labor service:

The revenue from labor service is recognised when the supply of labor service has been completed within one accounting year since its commencement; if the commencement and completion of supply of labor service did not take place in the same accounting year, when transaction result of the supply of labor service could be measured reliably, related revenue from labor service is recognised according to the percentage of completion on the balance sheet date, otherwise revenue is recognised only to the extent of cost incurred that are expected to be recoverable.

The revenue from contracts involving multiple deliverables including sales of goods, construction of telecommunication systems, supply of labor services, etc. is recognised at the respective fair value based on the sales recognition methods mentioned above accordingly.

17. Provision

The Group recognise as liability an obligation that fulfils the following criteria and is related to contingent matters: the obligation in question is a present obligation of the Group that could be reliably measured and would probably result in an outflow of economic resources.

18. Income tax

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

19. Subsidy income

The Group's subsidy income was mainly derived from refunds of VAT and contributions to development fund, as well as financial subsidy for new products, and was recorded as subsidy income upon the actual receipt.

20. Related parties

A party is deemed to be a related party of the Group if it directly or indirectly controls or is controlled by, is in common control of or under common control with, or if it exercises significant influence on or under the significant influence of the Group in financial and operational decisions. A party is also deemed to be a related party of the Group if they are subject to the control of the same party together with the other party or parties.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

21. Share incentive scheme

In accordance with the first phase of the share incentive scheme, the Company has granted to its directors, management and key employees 47,980,000 ordinary shares, among which 4,798,000 shares has been reserved for both the personnel who have made significant contributions and the talents the Company need to employ. The equity settled share expense is measured by reference to the fair value of the stock on the granting day, approximately RMB36.81, which was determined by Towers Perrin Shenzhen Branch, an external valuer. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award.

22. Preparation of consolidated financial statements

Consolidated financial statements are prepared in accordance with relevant provisions of the Provisional Regulations Governing Consolidated Financial statements (Cai Kuai Zi [1995] No. 11) issued by the Ministry of finance and the Enterprise Accounting System.

Consolidated statements comprise the financial statements of a listed company with limited liability together with its subsidiaries. A subsidiary is a company in which the listed company with limited liability owned 50% or above of the voting capital.

Results of the Group's associates are not consolidated on a pro-rata basis when the Company prepared its consolidated financial statements, but were recognised using the equity accounting method, as the associates did not have any significant impact on the Group's financial position and operating results.

Results of subsidiaries were included in the consolidated statements upon the acquisition of effective control by the Company up to the date on which such control was transferred out of the Group.

On combination, reporting years and accounting policies consistent with those adopted by the parent would be adopted in respect of the financial statements of subsidiaries. All intra-group transactions and balances (including any unrealized profit) are eliminated in full on combination.

Please refer to Note IV to these financial statements for details of subsidiaries consolidated on 31 December 2006.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

III TAXATION

The principal tax items and tax rates applicable to the Group are as follows:

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

The Company was registered in Shenzhen Special Economic Zone (SEZ), hence its enterprise income tax rate is 15%.

Taxation policy of some of the Company's subsidiaries was as follows:

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Yan Jian Mian (2005) No. 004) issued by the Shenzhen State Tax Bureau, it was agreed that ZTE Microelectronics Technology Co. Ltd., as an enterprise, was entitled to enterprise income tax exemption in the first and second profitable years and was entitled to a 50% reduction in enterprise income tax from the third to the fifth year. The current year was its third profitable year and the company was subject to a reduced enterprise income tax of 7.5%.

Wuxi Zhongxing Optoelectronics Technologies Company, Limited was registered at Wuxi State's High-tech Industrial Development Zone and was subject to an enterprise income tax rate of 15% in 2006.

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Nan Jian Mian (2005) No. 0098) issued by the Nanshan State Tax Bureau in Shenzhen, Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited, as a SEZ enterprise engaged in the servicing industry, was entitled to enterprise income tax exemption in the first profitable year and a 50% reduction of enterprise income tax in the second and third years. As the company had yet to record a profitable year, it was exempted from enterprise income tax.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

III TAXATION (continued)

Pursuant to the Document Shen Di Shui San Han (2003) No. 199 issued by the Local Tax Bureau of Shenzhen, ZTE Mobile Tech Co., Ltd., as a manufacturing enterprise, was entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction of enterprise income tax from the third to the fifth year. As the current year was the fourth profitable year for the company, it was subject to a reduced enterprise income tax rate of 7.5%.

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Nan Jian Mian (2004) No. 0372) issued by the Nanshan State Tax Bureau in Shenzhen, ZTE Integration Telecom Ltd, as a manufacturing enterprise, was entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction of enterprise income tax from the third to the fifth year. As it was the second profitable year for the company, it was exempted from enterprise income tax.

Pursuant to the Income Tax Concession Approval Notice (Document Pu Shui Suo (2005) No. 672) issued by the Shanghai Pudong New Area State Tax Bureau and the Shanghai Pudong New Area Local Tax Bureau, Shanghai Zhongxing Telecom Equipment Technology & Service Company, Limited, as a hi-tech enterprise, was exempted from domestic enterprise income tax for a two-year period commencing 1 January 2005.

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Nan Zi (2004) No. 0034) issued by the Nanshan State Tax Bureau in Shenzhen, it was agreed that Shenzhen Zhongxing Software Company, Limited, as a software enterprise, was entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth year. The current year was the fourth profitable year and hence, the company was subject to a reduced enterprise income tax rate of 7.5%.

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Nan Zi (2004) No. 0002) issued by the Nanshan State Tax Bureau in Shenzhen, it was agreed that Shenzhen Lead Communication Equipment Company, Limited, as a manufacturing enterprise, was entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth year. The current year was the fourth profitable year. Hence, the company was subject to a reduced enterprise income tax rate of 7.5%.

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Nan Zi (2004) No. 0381) issued by the Nanshan State Tax Bureau in Shenzhen, it was agreed that Shenzhen Ruide Electronic Industrial Company, Limited, as a manufacturing enterprise, was entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth year. The current year was the third profitable year and the company was subject to a reduced enterprise income tax rate of 7.5%.

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Nan Zi (2004) No. 0036) issued by the Nanshan State Tax Bureau in Shenzhen, it was agreed that Shenzhen Kangquan Electromechanical Company, Limited, as a manufacturing enterprise, was entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth year. The current year was the third profitable year and the company was subject to a reduced enterprise income tax rate of 7.5%.

Pursuant to the Document Shen Guo Shui Nan Jian Mian (2005) No. 0217 issued by the Nanshan State Tax Bureau in Shenzhen, Shenzhen Zhongxing Liwei Technology Company, Limited was entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction of enterprise income tax from the third to the fifth year. As the current year was the second profitable year for the company, it was exempted from enterprise income tax.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

III TAXATION (continued)

Pursuant to the Document Shen Guo Shui Nan Jian Mian (2006) No. 0002 issued by the Nanshan State Tax Bureau in Shenzhen, Shenzhen Zhongxing Special Equipment Company, Limited was entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction of enterprise income tax from the third to the fifth year. As the current year was the second profitable year for the company, it was exempted from enterprise income tax.

Yangzhou Zhongxing Mobile Telecom Equipment Co., Limited, Anhui Wantong Post and Telecommunications Company, Limited., Guangdong New Pivot Technology & Service Company, Limited were subject to an enterprise income tax rate of 33%.

Shenzhen Guoxin Electronics Development Company Limited, Shenzhen Changfei Investment Company, Limited and Shenzhen Xingfei Technology Co., Ltd. were subject to an enterprise income tax rate of 15%.

IV CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES

Except for the notes (1) and (2) below, the scope of consolidated financial statements was the same as the previous year.

(1) Subsidiaries acquired during the year

Name of investee company	Registered Capital '000	Scope of business	Investment by the Company '000	Percentage of equity interests
南京中興軟創軟件有限公司	RMB5,000	Development, manufacture and sales of all kinds of communications equipment system drivers, software for the service sector, and provision of technical consultation	RMB5,000	100%
西安中興軟件有限責任公司	RMB30,000	Development, manufacture and sales of all kinds of communications equipment system drivers, software for the service sector, and provision of technical consultation	RMB30,000	100%
上海中興軟件有限責任公司	RMB50,000	Development, manufacture and sales of all kinds of communications equipment system drivers, software for the service sector, and provision of technical consultation	RMB50,000	100%
南京中興軟件有限責任公司	RMB50,000	Development, manufacture and sales of all kinds of communications equipment system drivers, software for the service sector, and provision of technical consultation	RMB50,000	100%
成都中興軟件有限責任公司	RMB50,000	Development, manufacture and sales of all kinds of communications equipment system drivers, software for the service sector, and provision of technical consultation	RMB50,000	100%
深圳市中軟海納技術有限公司	RMB8,000	Development, manufacture and sales of all kinds of communications equipment system drivers, software for the service sector, and provision of technical consultation	RMB8,000	100%
ZTE India R&D Center Private Limited.	INR100	Researching operation of VAT production	INR100	100%
ZTE Korea Limited	KRW50,000	Sales of telecommunication products, provision of after-sales services and technical support	USD53.5	100%
ZTE Singapore PTE. Ltd.	SGD50	Sales of telecommunication products, provision of after-sales services and technical support	USD32.5	100%
ZTE CZECH,s.r.o	ILS200	Sales of telecommunication products, provision of after-sales services and technical support	USD10	100%

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

IV CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

(1) Subsidiaries acquired during the year (continued)

Name of investee company	Registered Capital '000	Scope of business	Investment by the Company '000	Percentage of equity interests
ZHONGXING CORPORATION S.A. DE C.V.	USD11.42857	Sales of telecommunication products, provision of after-sales services and technical support	USD11.42857	100%
ZTE Energy (Cayman) Co., Limited	USD10,000	Development, manufacture, sales of products and investment in the area of energy sources.	USD4,200	100%
ZTE investment Limited Liabilities Company	USD335	Sales of telecommunication products, provision of after-sales services and technical support	USD100	51%
ZTE Norway AS	NOK100	Sales of telecommunication products, provision of after-sales services and technical support	NOK100	100%
ZTE Mauritius Ltd	USD10	Sales of telecommunication products, provision of after-sales services and technical support.	USD10	100%
中興能源技術(武漢)有限公司	HKD14,700	Research, development and sales of new technologies and products regarding reproductive resources; and provision of corresponding technical services.	HKD5,000	100%
深圳市中興力維軟件有限公司	RMB1,000	Development, sales of software products and provision of after-sales services and technical support	RMB900	90%
中興能源(湖北)有限公司	USD5,000	Research, development and sales of new technologies and products regarding reproductive resources; and provision of corresponding technical services.	USD3,500	70%

(2) Disposal of subsidiaries during the year

Name of investee company	Registered Capital '000	Scope of business	Investment by the Company	Percentage of equity interests
Shenzhen Zhongxing Mobile Telecom Equipment Co., Limited. (Note 1)	RMB10,000	Development, manufacture, sales of the CDMA telecommunication products.	RMB10,000	100%
Shanghai Xingfei Science and Technology Company, Limited. (Note 2)	RMB1,000	Manufacture, sales of electronic products and provision of after-sales services, and management consulting.	RMB800	80%
WANAAG COMMUNICATIONS Limited. (Note 3)	USD200	Provision of overseas call diversion services in Africa	USD100	100%

Note (1): In June 2006, the Board of Directors of the Company approved the deregistration of Shenzhen Zhongxing Mobile Telecom Equipment Co., Limited. ("Mobile Telecom"). The deregistration of Mobile Telecom was completed in July, 2006.

Note (2): In March 2006, the Board of Directors of Shenzhen Changfie Investment Company, Limited. approved the deregistration of Shanghai Xingfei Science and Technology Company, Limited. ("Shanghai Xingfei"). The deregistration of Shanghai Xingfei was completed in August 2006.

Note (3): In August 2006, Newinfo Holding Limited, Abdulratman Ali HAILE and Unigrow International Limited approved the additional investment in WANAAG COMMUNICATIONS ("WANAAG"). The Company's shareholding in WANAAG was reduced to 45% in August 2006 following the completion of the capital increase.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
 (All amounts in RMB'000 unless otherwise stated)
 (English translation for reference only)

IV CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

(2) Disposal of Subsidiaries during the year (continued)

Operating results of subsidiaries disposed of during the year were included in the Group's consolidated statements from 1 January 2006 to the date of disposal/deregistration, as shown in the following:

	Mobile Telecom 1 January to 27 July 2006	Shanghai Xingfei 1 January to 3 August 2006	WANAAG 1 January to 15 August 2006
Revenue from principal operations	—	—	35
Profit from principal operations	—	—	(70)
Total profit	18	(6)	(260)
Income tax	(2)	—	—
Net profit	16	(6)	(260)

Assets and liabilities of subsidiaries disposed of during the year as at the date of disposal/deregistration were as follows:

	Mobile Telecom 27 July 2006	Shanghai Xingfei 3 August 2006	WANAAG 15 August 2006
Current assets	10,330	2	440
Total assets	10,330	2	440
Current Liabilities	(3)	—	(75)
Total liabilities	(3)	—	(75)

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

IV CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

(3) Subsidiaries included in the scope of consolidation

Full name of subsidiaries	Place of registration	Registered capital '000	Shareholding percentage of the Company			Investment of the Group '000	Principal operation
			Direct	Indirect	Effective		
ZTE Kangxun Telecom Co., Ltd.	Shenzhen	RMB50,000	90%	—	90%	RMB45,000	Manufacture of electronics products and related parts (excluding restricted items)
ZTE Microelectronics Technology Co. Ltd.	Shenzhen	RMB15,000	—	90%	90%	RMB13,500	Design, manufacture and sales of integrated circuit products
Zhongxing Telecom Pakistan (Private) Limited	Islamabad, Pakistan	PKR37,919	93%	—	93%	USD654.7	Assembling and manufacture of digital remote control switch
Yangzhou Zhongxing Mobile Telecom Company, Limited	Yangzhou	RMB6,000	65%	—	65%	RMB3,900	R&D, manufacture and sales of electronics, computer and communications products
Shenzhen Zhongxing Mobile Technology Co., Ltd.	Shenzhen	RMB33,333	95%	—	95%	RMB31,666	Development and sales of telecommunications products; manufacture of handset batteries, chargers and ear phones.
Congo-Chine Telecom S.A.R.L	The Democratic Republic of Congo	USD17,450	51%	—	51%	USD8,900	Construction of telephone network in Congo, provision of telecom services and manufacture of communications equipment
Congo-Chine Telecom International Network (CCTNET)	The Democratic Republic of Congo	USD100	—	100%	100%	USD100	Manufacture of telecommunication products and provision of telecom services.
南京中興軟創科技 有限公司	Nanjing	USD7,231	76%	—	76%	RMB45,040	Development, manufacture and sales of software products, telecommunication equipment and provision of related services
Guangzhou Nanfang Telecommunications System Software Co. Ltd.	Guangzhou	RMB12,430	—	84%	84%	RMB11,500	Development, manufacture and sales of software products, telecommunication equipment and provision of related services.
Shenzhen Zhongxing Software Company Limited	Shenzhen	RMB50,000	73%	25%	98%	RMB49,000	Development, manufacture and sales of all kinds of communications equipment system drivers, software for the service sector, and provision of technical consultation
Shenzhen Guoxin Electronics Development Company, Limited	Shenzhen	RMB13,000	90%	10%	100%	RMB33,000	Purchase and sales of electronics components; domestic business, supply and sale of materials; promotion of a variety of industries
Wuxi Zhongxing Optoelectronics Technologies Company, Limited	Wuxi	RMB10,000	65%	—	65%	RMB6,500	Development of optoelectronics technologies and manufacture and sales of related products and provision of technical services.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

IV CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

(3) Subsidiaries included in the scope of consolidation (continued)

Full name of subsidiaries	Place of registration	Registered capital '000	Shareholding percentage of the Company			Investment of the Group '000	Principal operation
			Direct	Indirect	Effective		
Shenzhen Force Science and Technology Company, Limited	Shenzhen	RMB3,000	—	80%	80%	RMB2,400	Development of optoelectronics technologies and manufacture and sales of related products and provision of technical services
Anhui Wantong Posts and Telecommunications Company, Limited	Hefei	RMB22,214.4	51%	—	51%	RMB11,329.3	Manufacture of communications wireline equipment and accessories, PDF and switch equipment, manufacture and installation of towers, and design and installation of communications projects
Anhui Wantong Information System Integration Company, Limited	Hefei	RMB3,000	—	95%	95%	RMB2,850	Design, manufacture and sales of communications projects
Anhui Wantong Tower Integration Company, Limited	Hefei	RMB2,000	—	90%	90%	RMB1,800	Installation of towers
Anhui Yalong communications Technology Company, Ltd.	Hefei	RMB6,000	—	90%	90%	RMB5,400	Manufacturing, installation, maintenance of telecommunication equipment and design and construction and telecommunication projects
ZTE (H.K.) Limited	Hong Kong	HKD50,000	100%	—	100%	HKD50,000	Procurement and sales of communications products and provision of technical services
ZTE Portugal Projectos de Telecomunicacoes, Unipessoal, Lda	Portugal	EUR50	—	100%	100%	EUR50	Sales of communications products and provision of after-sale services
ZTE (USA) Inc.	Edison, United States of America	USD20	100%	—	100%	USD650	Sales of communications products
Shenzhen Special Equipment Company, Limited	Shenzhen	RMB1,000	54%	—	54%	RMB540	Technical development, services, consultation and purchase and sales of communications products
Telrise (Cayman) Telecom Ltd.	Cayman Islands	USD50	52.85%	47.15%	100%	USD4,350	R&D of softswitch technologies
Telrise INC.	Cayman Islands	USD1,609	—	100%	100%	USD1,609	R&D of softswitch technologies
Telrise Nanjing Telecom Limited	Nanjing	USD100	—	100%	100%	USD100	R&D of softswitch technologies
ZTE (UK) Ltd.	London, United Kingdom	GBP604	51%	—	51%	USD372.3	Sales of communications products and provision of after-sale services and technical support

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

IV CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

(3) Subsidiaries included in the scope of consolidation (continued)

Full name of subsidiaries	Place of registration	Registered capital '000	Shareholding percentage of the Company			Investment of the Group '000	Principal operation
			Direct	Indirect	Effective		
ZTE Do Brasil LTDA	Brazil	USD200	100%	—	100%	USD900	Sales of communications products and provision of after-sale services and technical support
ZTE Holdings (Thailand) Co., Ltd	Thailand	THB100	49%	—	49%	THB49	Investment holding
ZTE (Thailand) Co., Ltd	Thailand	THB50,000	49%	51%	100%	THB20,000	Sales of communications products and provision of after-sale services and technical support
ZTE Corporation Mexico S. DE R. L DE C. V.	Mexico	USD5	100%	—	100%	USD28,115	Sales of communications products and provision of after-sale services and technical support
ZTE Integration Telecom Ltd.	Shenzhen	RMB55,000	75%	5%	80%	RMB44,000	Research and manufacture, production and sales of digital integrated system products and provision of related consultation services
ZTEIT USA Inc.	United States of America	USD950	—	100%	100%	USD475	Design and development of all kinds of communications products
ZTE – Communication Technologies, Ltd.	Russia	USD760	100%	—	100%	USD760	Sales of telecommunications products and provision of after-sale services and technical support
ZTE Wistron Telecom AB	Sweden	SEK1,000	100%	—	100%	USD3,137.4	Operation of telecommunications related businesses as R&D base and technical support platform of the sector
Shenzhen Changfei Investment Company, Limited	Shenzhen	RMB30,000	51%	—	51%	RMB15,300	Investment and promotion of industries, and sales of electronics and communications parts and components
Shenzhen Lead Communications Company, Limited	Shenzhen	RMB10,000	—	62.5%	62.5%	RMB6,250	Sales of electronics products, communications products, apparatus and instruments and related accessories
Shenzhen Ruide Electronic Industrial Company Limited	Shenzhen	RMB8,700	—	57.47%	57.47%	RMB5,500	Manufacture and sales of handset accessories; sales of electronics products; operation of I/E businesses
Shenzhen Kangquan Electromechanical	Shenzhen	RMB16,000	—	57.5%	57.5%	RMB9,200	Manufacture and sales of handset case and accessories; purchase and sales of electronics products; self operation of I/E businesses
深圳市興飛科技有限公司	Shenzhen	RMB5,000	—	80%	80%	RMB4,000	Four technical services of electronic products, manufacturing, sales and after-sales services of electronic products and corporate management consultancy

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

IV CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

(3) Subsidiaries included in the scope of consolidation (continued)

Full name of subsidiaries	Place of registration	Registered capital '000	Shareholding percentage of the Company			Investment of the Group '000	Principal operation
			Direct	Indirect	Effective		
Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited	Shenzhen	RMB50,000	90%	10%	100%	RMB50,000	Technical development of computer networks, software, electronics equipment and communications products; domestic supply and sales of materials and resources; information consultancy
Shanghai Zhongxing Telecom Equipment Technology & Service Company, Limited	Shanghai	RMB10,000	51%	—	51%	RMB5,100	R&D of communications technologies, design, research, development, manufacture and sales of software and hardware for communications products and provision of related technical services
Guangdong New Pivot Technology & Service Company Limited	Guangzhou	RMB5,000	90%	—	90%	RMB4,500	Development, design and integration of computer software, hardware and data equipment; sales and technical assignment of related products and provision of related services
Closed Joint Stock Company TK Mobile	Tadjikistan	USD4,000	51%	—	51%	RMB16,870.8	Manufacture of CDMA800 mobile voice and related value-added services, maintenance of CDMA telecom networks and provision of consultation services
ZTE Telecom Company India Private Ltd.	India	USD22.2	99.99%	0.01%	100%	RMB1,654	Assembling and integration of telecom systems equipment and terminal equipment in India; investment in and establishment of local manufacturing joint-venture
ZTE Romania S.R.L.	Romania	USD100	100%	—	100%	RMB827	Sales and marketing of the Company's products in Romania and provision of corresponding engineering, after-sale services, technical support, consultation and trainings
ZTE (Malaysia) Corporation SDN. BHD	Malaysia	USD60	100%	—	100%	RMB496.2	Sales and marketing of the Company's products in Malaysia and provision of corresponding engineering, after-sale services, technical support, consultation and trainings
ZiMax (Cayman) Holding Ltd.	Cayman Islands	USD5,500	100%	—	100%	RMB45,485	R&D investment in all kinds of communications products

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

IV CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

(3) Subsidiaries included in the scope of consolidation (continued)

Full name of subsidiaries	Place of registration	Registered capital '000	Shareholding percentage of the Company			Investment of the Group '000	Principal operation
			Direct	Indirect	Effective		
Shenzhen Hongde Battery Company, Limited	Shenzhen	RMB15,000	—	83%	83%	RMB12,500	Manufacture and sales of batteries, sale of battery raw materials and electronics products (excluding franchised, state-controlled and monopolized merchandises and restricted items); operate import and export businesses
ZTE (Saudi Arabia) Ltd.	Saudi Arabia	USD534.76	—	100%	100%	USD534.76	Sales of communications products, provision of after-sale services and technical support
ZTE Nigeria Investment Limited	Nigeria	USD39	—	100%	100%	USD540	Import and export of raw materials, manufacture, testing, sales, installation, development, user training and after-sale services of telecommunications products
ZTE Sweden AB	Sweden	USD360	—	100%	100%	USD360	Sales of communications products, provision of after-sale services and technical support
PT. ZTE Indonesia	Indonesia	USD200	99.5%	0.5%	100%	USD200	Sales of communications products, provision of after-sale services and technical support
ZTE Istanbul Trading Ltd. Co.	Turkey	USD50	—	100%	100%	USD49.5	Sales of communications products, provision of after-sale services and technical support
ZTE Hrvatska D.O.O.	Croatia	EUR3	—	100%	100%	EUR3	Sales of communications products, provision of after-sale services and technical support
ZTE Corporation Bulgaria Ltd.	Bulgaria	USD3.5	—	100%	100%	USD3.5	Sales of communications products, provision of after-sale services and technical support
ZTE Deutschland GmbH	Germany	EUR150	—	100%	100%	EUR150	Sales of communications products, provision of after-sale services and technical support
ZTE Poland Sp.zo.o.	Poland	USD50	—	100%	100%	USD50	Sales of communications products, provision of after-sale services and technical support
深圳中興力維技術有限公司	Shenzhen	RMB20,000	30%	50%	80%	RMB16,000	Design and development of operating environment and status monitoring and management systems for network base station and electronic equipment and electronic system equipment, sales of proprietary products and provision of technical services

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

IV CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

(3) Subsidiaries included in the scope of consolidation (continued)

Full name of subsidiaries	Place of registration	Registered capital '000	Shareholding percentage of the Company			Investment of the Group '000	Principal operation
			Direct	Indirect	Effective		
西安中興精誠通訊有限公司	Xi'an	RMB15,000	70%	—	70%	RMB11,390	Installation, testing and technical services; development and sales of computer application software and systems integration, technical protection works and the development, production and sales of security products
ZiMax Technologies, Inc	United States	USD20,000	—	100%	100%	USD5,379.7	R&D of wireless communication technology
Netinfo Holdings Limited	Hong Kong	USD50	—	100%	100%	USD4,299	Acquisition, shareholding and investment of telecom carriers
ZTE Canada Inc.	Canada	USD200	—	100%	100%	USD38	Sales of communications products, provision of after-sale services and technical support
ZTE Netherlands B.V.	Holland	EUR90	—	100%	100%	EUR18	Sales of communications products, provision of after-sale services and technical support
ZTE Ghana Limited	Ghana	USD300	—	100%	100%	USD300	Sales of communications products, provision of after-sale services and technical support
ZTE (Australia) Pty Ltd.	Australia	USD200	—	100%	100%	USD200	Sales of communications products, provision of after-sales and technical support
深圳中興無線通信有限公司	Shenzhen	RMB5,000	—	100%	100%	RMB750	Development, production and sales of GSM and PHS telecommunication equipment
南京中興軟創軟件有限公司	Nanjing	RMB5,000	5%	95%	100%	RMB5,000	Development, manufacture, and sales of the software products and provision of after-sales services
ZHONGXING CORPORATION S.A. DE C.V.	Salvador	USD11,42857	—	100%	100%	USD11,42857	Sales of communications products, provision of after-sale services and technical support
ZTE Energy (Cayman) Co., Limited	Cayman	USD10,000	—	100%	100%	USD4,200	R&D, manufacture, sales and investment in resource area
ZTE INVESTMENT Limited Liabilities Company	Uzbekistan	USD335	—	51%	51%	USD100	Manufacture and sales of mobile phone products and data system, etc.
ZTE Norway AS	Norway	NOK100	—	100%	100%	NOK100	Sales of communication products and provision of after sales services and technical support
ZTE Mauritius LTD.	Mauritius	USD10	—	100%	100%	USD10	Sales of communication products and provision of after sale services and technical support

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

IV CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

(3) Subsidiaries included in the scope of consolidation (continued)

Full name of subsidiaries	Place of registration	Registered capital '000	Shareholding percentage of the Company			Investment of the Group '000	Principal operation
			Direct	Indirect	Effective		
中興能源技術(武漢)有限公司	Wuhan	HKD14,700	—	100%	100%	HKD5,000	R&D, promoting the technology and products of renewable resources and provision of related services
深圳市中興力維軟件有限公司	Shenzhen	RMB1,000	—	90%	90%	RMB900	R&D, manufacture and sales of the software products and provision of services
中興能源(湖北)有限公司	Jingzhou	USD5,000	—	70%	70%	USD3,500	R&D and promotion of the technology and products of renewable resources and provision of related services
ZTE SINGAPORE PTE.LTD.	Singapore	SGD50	—	100%	100%	USD32.5	Sales of communications products; provision of after-sales services technical support
ZTE Korea Limited	Korea	KRW50,000	—	100%	100%	USD53.5	Sales of communications products and provision of after-sales services and technical support
ZTE CZECH,s.r.o.	Czech	CZK200	—	100%	100%	USD10	Sales of communications products and provision of after-sales services and technical support
ZTE India R&D Center Private Limited	India	Rupee 100	—	100%	100%	Rupee 100	Sales of communication products and provision of after sale services and technical support
西安中興軟件有限責任公司	Xi'an	RMB30,000	—	100%	100%	RMB30,000	Development, manufacture and sales of all kinds of communications equipment system drivers, software for the service sector, and provision of technical consultation
南京中興軟件有限責任公司	Nanjing	RMB50,000	—	100%	100%	RMB50,000	Development, manufacture and sales of all kinds of communications equipment system drivers, software for the service sector, and provision of technical consultation
上海中興軟件有限責任公司	Shanghai	RMB50,000	—	100%	100%	RMB50,000	Development, manufacture and sales of all kinds of communications equipment system drivers, software for the service sector, and provision of technical consultation
成都中興軟件有限責任公司	Chengdu	RMB50,000	—	100%	100%	RMB50,000	Development, manufacture and sales of all kinds of communications equipment system drivers, software for the service sector, and provision of technical consultation
深圳市中軟海納技術有限公司	Shenzhen	RMB8,000	—	100%	100%	RMB8,000	Development, manufacture and sales of all kinds of communications equipment system drivers, software for the service sector, and provision of technical consultation

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

IV CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

(4) Jointly-controlled entities

Full name of jointly-controlled entities	Place of registration	Registered capital '000	Shareholding percentage of the Company			Investment of the Group '000	Principal operation
			Direct	Indirect	Effective		
Bestel Communications Ltd.	Republic of Cyprus	CYP600	—	50%	50%	CYP150	Sales of communications products and provision of after-sale services
Beijing Zhongxingxin Communication Equipment Company, Limited	Beijing	RMB5,000	50%	—	50%	RMB2,500	Sales of communications equipment (excluding radio transmitter), electronics computer and related external devices, and provision of technical consultation services

(5) Associates

Full name of associates	Place of registration	Registered capital '000	Shareholding percentage of the Company			Investment of the Group '000	Principal operation
			Direct	Indirect	Effective		
ZTE IC Design Co., Ltd	Shenzhen	RMB64,000	40%	—	40%	RMB34,400	Design, development, production and marketing of various ICs and related electronic applications
WuXi Kaier Technology Co., Ltd	Wuxi	RMB10,000	—	30.88%	30.88%	RMB3,500	R&D and manufacture of optoelectronics products, development of optoelectronics technologies, sales of self-produced products and provision of related services
Shenzhen Zhongxing Xinyu FPC Company, Limited	Shenzhen	RMB11,000	—	22.7%	22.7%	RMB2,500	Development, manufacture and sales of single-layered, double-layered, multi-layered and rigid-flexible reflexible printed integrated circuits; import and export of goods and technologies (excluding items prohibited and restricted under the laws, constitutions and as decided by the State Council)
Shenzhen Weigao Semiconductor Company, Limited	Shenzhen	RMB10,000	—	40%	40%	RMB4,000	Development, design and sales of semi-conductor circuit package; domestic business and supply of materials and resources (excluding franchised, state-controlled and monopolized merchandises and restricted items); promotion of industries (separate declaration was required for specific items)
Beijing Zhongxing Yuanjing Technology Co., Ltd	Beijing	RMB10,000	30%	—	30%	RMB3,000	R&D and manufacture of software products of the data centre and metropolitan campus networks

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

IV CONTROLLING SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

(5) Associates (continued)

Full name of associates	Place of registration	Registered capital '000	Shareholding percentage of the Company			Investment of the Group '000	Principal operation
			Direct	Indirect	Effective		
KAZNURTEL Limited Liability Company	Kazakstan	USD3,000	49%	—	49%	RMB3,988.4	Manufacture and sales of telecom equipment and provision of corresponding technical support, after-sale services, trainings and consultation; installation and construction of CDMA45M WLL and provision of corresponding telecom services and value-added services
Shenzhen Smart Electronics Company, Limited.	Shenzhen	HKD30,000	—	30%	30%	HKD5,000	Development and production of parts and components for novel instruments
中興軟件技術(南昌)有限公司	Nanchang	RMB15,000	30%	—	30%	RMB4,500	Development and application of software technology, systems integration, network engineering, technology consultancy and services
深圳市聚飛光電有限公司	Shenzhen	RMB15,000	—	30%	30%	RMB4,500	Development, production and sales of optoelectronic components, sensitive components, sensors, diodes, SM DLED, LED and optoelectronic component application products; sales of electronic components; export and import of goods and technology
深圳市富德康電子有限公司	Shenzhen	RMB6,000	—	30%	30%	RMB1,800	Manufacture and sales of electronic products; import and export of goods and technologies
深圳市鼎力網絡有限公司	Shenzhen	RMB10,000	—	35%	35%	RMB3,500	Development, sales, purchase and maintenance of telecommunication products and related components; provision of value-added services and advertising services
WANAAG COMMUNICATIONS LIMITED	Hongkong	USD100	—	45%	45%	USD45	Provision of overseas call diversion services in Africa
Shenzhen Decang Technology Company Limited	Shenzhen	RMB2,500	—	40%	40%	RMB1,000	Development, manufacture and sales of optoelectronic and telecommunication products; import and export of goods and technologies

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
 (All amounts in RMB'000 unless otherwise stated)
 (English translation for reference only)

V EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED)

1. Cash in banks and on hands

Item		2006			2005		
		Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Cash	MRO	55,424	0.0293	1,624	—	—	—
	INR	6,349	0.1757	1,116	—	—	—
	RMB	285	1.0000	285	387	1.0000	387
	HKD	95	1.0047	95	125	1.0403	130
	USD	1,004	7.8087	7,840	1,138	8.0702	9,184
	BRL	16	3.6523	58	1	3.4522	3
	THB	460	0.2178	100	1,540	0.1968	303
	FEC	—	—	—	69	7.3633	508
	GBP	3	15.5549	47	—	—	—
	PKR	871	0.1283	112	574	0.1350	77
	SAR	179	2.0879	374	92	2.1521	198
	SOS	—	—	—	42	2.5225	106
	Others			395			150
	Subtotal			12,046			11,046

NOTES TO FINANCIAL STATEMENTS

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

V EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

1. Cash in banks and on hands (continued)

Item	2006			2005		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Bank deposits						
LYD	185	6.1005	1,129	—	—	—
TJR	1,833	2.2789	4,177	—	—	—
VND	5,698,348	0.0005	2,849	—	—	—
VEB	1,248,802	0.0036	4,496	—	—	—
ARS	1,781	2.5271	4,501	—	—	—
RMB	1,888,669	1.0000	1,888,669	3,609,771	1.0000	3,609,771
HKD	183,311	1.0047	184,173	33,408	1.0403	34,754
USD	196,734	7.8087	1,536,237	154,588	8.0702	1,247,556
BRL	1,565	3.6523	5,716	8,858	3.4522	30,580
PKR	296,881	0.1283	38,090	651,989	0.1350	88,019
EGP	9,777	1.3699	13,394	65,376	1.4035	91,755
GBP	236	15.5549	3,671	945	14.1349	13,357
SEK	17,503	1.1418	19,985	2,442	1.0154	2,480
DZD	199,541	0.1132	22,588	35,070	0.0897	3,146
IDR	6,473,322	0.0009	5,826	—	—	—
COP	1,543,200	0.0035	5,401	5,334,654	0.0035	18,671
IQD	786,017	0.0062	4,873	—	—	—
CEDI	—	—	—	3,509,473	0.0008	2,808
EUR	23,042	10.2665	236,561	19,778	9.5797	189,467
NGN	—	—	—	334,439	0.0576	19,264
THB	25,727	0.2178	5,603	2,747	0.1968	541
JPY	70,798	0.0656	4,644	—	—	—
INR	98,549	0.1757	17,315	—	—	—
SAR	213	2.0879	445	1,514	2.1521	3,258
SOS	—	—	—	613	2.5225	1,546
RUB	66,092	0.3003	19,847	38,287	0.2803	10,732
AUD	10,451	6.1559	64,335	—	—	—
Others	—	—	9,391	—	—	1,452
Subtotal			4,103,916			5,369,157
Other currency						
RMB	183,511	1.0000	183,511	79,435	1.0000	79,435
USD	1,063	7.8087	8,301	1,400	8.0702	11,298
HKD	4	1.0047	4	14,700	1.0403	15,292
PKR	—	—	—	54,131	0.1350	7,308
XOF	—	—	—	5,543,000	0.0143	79,265
JPY	49,986	0.0656	3,279	—	—	—
Others	—	—	3	—	—	331
Subtotal			195,098			192,929
Total			4,311,060			5,573,132

At 31 December 2006, except for pledge bank deposits amounting to RMB31,000,000 were frozen for a litigation proceeding. (Details are given in Note VIII to the financial statements, *Contingent event*), and pledged bank deposits, amounting to RMB137,997,000 were for bank facilities.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
 (All amounts in RMB'000 unless otherwise stated)
 (English translation for reference only)

V EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

2. Short-term Investment

	2006			2005		
	Investment Cost	Provision for impairment	Balance at the end of the year	Investment Cost	Provision for impairment	Balance at the end of the year
Equity investment-stock	16,693	—	16,693	—	—	—

The market value of the investment in stocks amounted to RMB33,288,000 on 31 December 2006. The market value for reference was the closing price of the same day of Hong Kong Exchanges and Clearing Limited. The management deemed that there was no significant restriction relating to the realization of the short-term investment.

3. Notes receivables

	2006	2005
Bank acceptance bills	461,300	448,693
Commercial acceptance bills	1,197,106	796,160
	1,658,406	1,244,853

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

The balance of notes receivable at year-end increased by 33% compared to that at the beginning of the year. The increase was mainly attributable to the increased commercial bills due from domestic operators.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

4. Trade receivables

Aging analysis of trade receivables was as follows:

The Group

	2006				2005			
	Balance	Percentage of the total balance	Provision for bad debts	Percentage of provision	Balance	Percentage of the total balance	Provision for bad debts	Percentage of provision
Within one year	5,321,442	85.02%	87,201	1.64%	3,535,496	84.28%	109,961	3.11%
Between one to two years	746,133	11.92%	297,550	39.88%	545,333	13.00%	232,046	42.55%
Between two to three years	106,137	1.70%	93,013	87.63%	47,377	1.13%	36,826	77.73%
Over three years	85,476	1.36%	79,093	92.53%	66,628	1.59%	66,413	99.68%
	6,259,188	100%	556,857		4,194,834	100%	445,246	
Less: accounts due within one year	5,886,485	94.05%	556,857		3,887,168	92.67%	445,246	
Long-term portion	372,703	5.95%	—		307,666	7.33%	—	

Of the balance of trade receivables as at the end of the year, RMB2,074,000 was due from shareholders holding 5% or more in the shares. Please refer to Note VII to the financial statements, Relationship with connected parties and connected transactions.

The top five balances amounted to RMB2,108,159,000, accounting for 34% of the total balance of trade receivables.

The balance of trade receivables increased by 54.84% compared with that of the beginning of the year, which was mainly due to that the Group granted longer credit terms to the customers.

Bad debt provision of trade receivables was as follows:

	2006	2005
Balance at the beginning of the year	445,246	429,605
Provision for the year	284,493	217,537
Reversal for the year	(172,882)	(201,896)
Balance at the end of the year	556,857	445,246

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
 (All amounts in RMB'000 unless otherwise stated)
 (English translation for reference only)

V EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

4. Trade receivables (continued)

The Company

	2006				2005			
	Balance	Percentage of the total balance	Provision for bad debts	Percentage of provision	Balance	Percentage of the total balance	Provision for bad debts	Percentage of provision
Within one year	5,602,594	85.53%	74,589	1.33%	4,426,106	84.78%	97,303	2.20%
Between one to two years	627,764	9.58%	252,269	40.19%	648,024	12.42%	219,505	33.87%
Between two to three years	205,237	3.13%	70,022	34.12%	46,038	0.88%	34,166	74.21%
Over three years	115,007	1.76%	72,348	62.91%	100,487	1.92%	60,763	60.47%
	6,550,602	100%	469,228		5,220,655	100%	411,737	
Less: accounts due within one year	6,222,436	95.00%	469,228		4,893,533	93.73%	411,737	
Long-term portion	328,166	5.00%	—		327,122	6.27%	—	

The top five balances of trade receivables amounted to RMB2,195,129,000, accounting for 34% of the total balance of trade receivables at the end of the year.

Of the balance of trade receivables as at the end of the year, RMB142,000 was due from shareholders holding 5% or more in the shares.

Bad debt provision of trade receivables was as follows:

	2006	2005
Balance at the beginning of the year	411,737	420,598
Provision for the year	226,157	193,035
Reversal for the year	(168,666)	(201,896)
Balance at the end of the year	469,228	411,737

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

5. As at 31 December 2006, the Company and its subsidiaries entered into an agreement with a bank during the year, trade receivables amounting to RMB1,552,054,000 were factored to obtain bank advances. According to the factoring agreement, if the client delayed repayment, the Company and its subsidiary would be obliged to pay interests in respect of the delayed repayment. In accordance with the Provision Regulation on Accounting Treatment of Creditor Financing between Enterprises and Banks/Financial Institutions issued by the Ministry of Finance, the factored trade receivables and bank advances on factored trade receivables of the Group were reflected in the balance sheet based on the principle that "substance over form," as the risks and rewards associated with the creditor rights had not been fully transferred.

The balance of short-term and long-term factored trade receivables increased by 110% compared with that of the beginning of the year, which was mainly attributed to that more receivables were factored to banks during the year.

6. Other receivables

Aging analysis of other receivables was as follows:

The Group

	2006				2005			
	Balance	Percentage of the total balance	Provision for bad debts	Percentage of provision	Balance	Percentage of the total balance	Provision for bad debts	Percentage of provision
Within one year	830,837	62.44%	543,514	65.42%	712,063	70.65%	487,678	68.49%
Between one to two years	296,228	22.26%	151,678	51.20%	122,012	12.10%	82,721	67.80%
Between two to three years	48,990	3.68%	40,959	83.61%	83,238	8.26%	71,825	86.29%
Over three years	154,593	11.62%	154,593	100%	90,627	8.99%	85,741	94.61%
	1,330,648	100%	890,744		1,007,940	100%	727,965	

Bad debt provision for other receivables was as follows:

	2006	2005
Balance at the beginning of the year	727,965	477,493
Provision for the year	413,251	487,678
Reversal for the year	(250,472)	(237,206)
Balance at the end of the year	890,744	727,965

The top five balances of other receivables amounted to RMB102,539,000, accounting for 7.71% of the total balance of other receivables of the Group at the end of the year.

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

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
 (All amounts in RMB'000 unless otherwise stated)
 (English translation for reference only)

V EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

6. Other receivables (continued)

The balance of other receivables increased by 57.12% compared with that of the beginning of the year, which was mainly due to the rises of daily operating borrowings and deposits resulting from the expansion of the Group's business scale.

The balance of other receivables included two loan receivables to potential customers granted by the Group. A loan of USD1,777,000 (Approximately RMB13,941,000) bore no interest and no security, which would be repayable in September 2007. The executive directors had taken necessary measures with the potential customers to recover the loans receivables, and were of the opinion that no provision was necessary for the loan receivable. The other loan of EUR787,500 (Approximately RMB8,085,000) bore an annual interest of STIBOR + 1% to 3%, repayable in February 2007. Subsequent to the balance sheet date, the loan was repaid on the due date.

The Company

	2006				2005			
	Balance	Percentage	bad debts	Provision for Percentage of	Balance	Percentage	Provision for bad debts	Percentage of provision
Within one year	579,916	28.08%	511,987	88.29%	1,058,754	54.55%	481,644	45.49%
Between one to two years	691,790	33.50%	148,813	21.51%	656,484	33.83%	82,103	12.51%
Between two to three years	570,066	27.61%	40,392	7.09%	102,262	5.27%	62,013	60.64%
Over three years	223,229	10.81%	143,711	64.38%	123,248	6.35%	84,636	68.67%
	2,065,001	100%	844,903		1,940,748	100%	710,396	

Bad debt provision for other receivables is as follows:

	2006	2005
Balance at the beginning of the year	710,396	465,367
Provision for the year	616,152	481,644
Reversal for the year	(481,645)	(236,615)
Balance at the end of the year	844,903	710,396

The top five balances of other receivables amounted to RMB862,165,000, accounting for 41.75% of the total balance of other receivables of the Company at the end of the year.

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

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

7. Accounts prepaid

Aging analysis of accounts prepaid was as follows:

	2006		2005	
	Balance	Percentage	Balance	Percentage
Within one year	49,749	96.12%	150,991	99.88%
Between one to two years	2,008	3.88%	53	0.03%
Between two to three years	—	—	130	0.09%
	51,757	100%	151,174	100%

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

The balance of accounts prepaid decreased by 65.76%, which was mainly due to that fewer purchases of raw materials and fixed assets with terms of accounts prepaid were rendered during the year.

8. Inventories

	2006	2005
Raw materials	1,313,470	1,221,858
Materials under sub-contract processing	58,215	102,958
Work-in-progress	713,127	538,703
Finished goods	845,005	892,766
Science and technology R&D cost*	279,840	279,220
Less: impairment provision	448,662	515,958
	2,760,995	2,519,547

Pursuant the Reply on Accounting for Expenses by Technology Research and Development Projects Designated by the State (Cai Kuai Bian [2002] No.36) issued by the Accounting Department of the Ministry of Finance, expenses incurred by the Company in the research and development of products designated by the State using government grants shall be deemed as pooling of costs and expenses of products manufactured by the Company and accounted for as technology development costs. The balance of technology development at the end of the period represented costs and expenses pooled in respect of designated projects funded by the State prior to the completion or inspection for acceptance of such projects. Upon completion of the project designated by the state using government grants, science and technology R&D costs would be set off against specific payables in respect of the project.

An analysis of inventories provision was as follows:

	2006	2005
Balance at the beginning of the year	515,958	419,773
Provision for the year	115,058	96,185
Reversal for the year	(182,354)	—
Balance at the end of the year	448,662	515,958

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
 (All amounts in RMB'000 unless otherwise stated)
 (English translation for reference only)

V EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

9. Construction contracts

	2006	2005
Amount due from customers for contract work	5,833,480	4,689,157
Amount due to customers for contract work	(996,275)	(733,455)
	4,837,205	3,955,702
Contract costs incurred plus recognised profits less recognised losses to date	21,619,372	19,420,235
Less: progress billings	(16,782,167)	(15,464,533)
	4,837,205	3,955,702

Category

	2006	2005
Construction work	3,094,588	2,420,118
Goods delivered	1,742,617	1,535,584
	4,837,205	3,955,702

The amount due to customers for contract work increased by 35.83% compared with that at the beginning of the year as a result of the rise of receipt in advance for telecommunication system contracts.

10. Long-term investments

The Group

		2006	2005
Long-term equity investments			
Equity investments under cost method	(1)	43,488	43,288
Equity investments under equity method			
Equity interest in associates	(2)	51,257	35,583
Equity interest in jointly-controlled entities	(3)	5,936	6,588
Difference in equity investment	(4)	13,036	13,036
		113,717	98,495
Less: Provision for impairment of long-term investments	(5)	13,036	13,036
		100,681	85,459

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

10. Long-term investments (continued)

The Group (continued)

(1) Equity investments under cost method

Name of investee	Share of registered capital	Initial investment	Opening balance	Increase during the period	Decrease during the period	Closing balance
深圳市創新投資集團有限公司	0.33%	5,000	5,000	—	—	5,000
北京中視聯數字系統有限公司	7.59%	3,240	3,240	—	—	3,240
中移鼎訊通信股份有限公司	16%	32,000	32,000	—	—	32,000
Beijing Zhongxing Intelligent Transportation Systems Ltd.	19%	1,024	1,024	—	—	1,024
SunTop Technologies Ltd	26.54%	24	24	—	—	24
杭州中興發展有限公司	10%	2,000	2,000	—	—	2,000
貴州艾瑪特信息超市項目開發有限公司	10%	200	—	200	—	200
		43,488	43,288	200	—	43,488

(2) Equity interest in associates

Name of investee	Share of registered capital	Initial investment	Opening balance	Increase/decrease of investment cost during the period	Increase/decrease of equity during the period	Closing balance
深圳市富德康電子有限公司	30%	1,800	—	1,800	(275)	1,525
ZTE IC Design Co., Ltd	40%	30,000	13,218	—	2,608	15,826
Beijing Yuanjing Technology Co., Ltd.	30%	3,000	283	—	33	316
Kaznurte Limited Liability Company	49%	1,012	2,477	—	—	2,477
WuXi KaiEr Technology Company, Limited	30.88%	3,500	3,598	—	1,264	4,862
Shenzhen Zhongxing Xinyu FPC Company, Limited	22.73%	2,500	2,375	—	1,455	3,830
Shenzhen Weigao Semiconductor Company, Limited	40%	4,000	2,976	—	(260)	2,716
Shenzhen Decang Technology Company Limited	40%	1,000	811	—	4,004	4,815
深圳市聚飛光電有限公司	30%	4,500	4,348	—	(168)	4,180
中興軟件技術(南昌)有限公司	30%	4,500	2,354	—	939	3,293
Shenzhen Smart Electronics Company, Limited.	30%	3,335	3,143	1,843	(849)	4,137
Shenzhen Dingli Net Co., Ltd.	35%	3,500	—	3,500	(313)	3,187
WANAAG Communications Limited	45%	351	—	351	(258)	93
		62,998	35,583	7,494	8,180	51,257

(3) Equity interest in jointly-controlled entities

Name of investee	Share of registered capital	Initial investment	Opening balance	Increase/decrease of investment cost during the period	Increase/decrease of equity during the period	Closing balance
Beijing Zhongxingxin Communication Equipment Company Limited	50%	2,500	4,613	—	(797)	3,816
Bestel Communications Ltd.	50%	2,050	1,975	—	145	2,120
		4,550	6,588	—	(652)	5,936

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
 (All amounts in RMB'000 unless otherwise stated)
 (English translation for reference only)

V EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

10. Long-term investments (continued)

The Group (continued)

(4) *Difference in equity investment*

Name of investee	Opening and closing balance
Shenzhen Guoxin Electronics development Company, Limited	13,036

(5) *Provision for impairment of long-term investment*

Item	Opening and closing balance
Shenzhen Guoxin Electronics Development Company, Limited	13,036

There was no significant restriction relating to the realisation of the Group's long-term investments.

The Company

	2006	2005
Long-term equity investments		
Equity investments under cost method		
Subsidiaries (6)	2,573,949	2,779,384
Jointly-controlled entities (7)	3,816	4,613
Associates (8)	21,913	18,336
Equity investments under cost method (9)	41,488	41,288
Differences in equity investment (10)	4,439	2,720
	2,645,605	2,846,341
Less: Provision for impairment of long-term investments (11)	13,036	13,036
	2,632,569	2,833,305

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

10. Long-term investments (continued)

The Company (continued)

(6) Subsidiaries

Investee	Share of registered capital	Opening balance	Increase/ decrease of investment cost during the period	Increase/ decrease of equity during the period	Cash bonus for the year	Closing balance
ZTE Kangxun Telecom Co., Ltd.	90%	1,303,114	—	152,019	—	1,455,133
Shenzhen Zhongxing Mobile Telecom Equipment Co., Ltd	90%	9,414	(9,430)	16	—	—
ZTE (USA) Inc.	100%	(9,290)	—	(73,171)	—	(82,461)
Wuxi Zhongxing Optoelectronics Technologies Company, Limited	65%	31,617	—	11,460	(1,300)	41,777
ZTE (H.K) Limited	100%	454,727	—	578,334	(803,736)	229,325
Anhui Wantong Posts and Telecommunications Company, Limited	51%	22,787	—	5,698	(2,266)	26,219
Telrise (Cayman) Telecom Ltd	52.85%	2,923	—	(218)	—	2,705
深圳市國鑫電子發展有限公司	90%	3,356	—	—	—	3,356
Congo-Chine Telecom S.A.R.L.	51%	24,256	31,502	13,225	—	68,983
Yangzhou Zhongxing Mobile Telecom Equipment Co., Limited	65%	(28,912)	—	(2,103)	—	(31,015)
ZTE Mobile Tech Co., Limited	95%	29,129	—	38,945	—	68,074
南京中興軟創科技有限責任公司	76%	103,676	—	58,743	—	162,419
ZTE (UK) Limited	51%	(16,647)	—	(17,033)	—	(33,680)
ZTE do Brasil Ltda	100%	(10,345)	—	(32,739)	—	(43,084)
Shenzhen Zhongxing Software Company, Limited	73%	697,581	9,749	1,397,722	(1,536,448)	568,604
ZTE Integration Telecom Ltd	75%	78,258	—	(41,905)	—	36,353
ZTE Wistron Telecom AB	100%	2,616	—	(238)	—	2,378
ZTE-Communication Technologies, Ltd.	100%	5,110	—	5,426	—	10,536
ZTE Corporation Mexico S.DE R.L DE C.V.	100%	(13,325)	—	(6,577)	—	(19,902)
Shenzhen Changfei Investment Company Limited	51%	49,655	—	11,486	—	61,141
Zhongxing Telecom Parkistan (Private) Limited	93%	(33,902)	—	79,297	—	45,395
Guangdong New Pivot Technology & Service Company, Limited	90%	9,280	4,500	909	—	14,689
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	90%	34,378	—	(159,772)	—	(125,394)
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited	51%	10,589	—	7,863	(510)	17,942
ZTE Holdings (Thailand) Co., Ltd	49%	(12)	—	(12)	—	(24)
ZTE (Thailand) Co., Ltd.	49%	(1,022)	1,840	207	—	1,025
Shenzhen Special Equipment Company Limited	54%	1,850	—	2,869	—	4,719
ZTE Telecom India Private Ltd.	100%	(52,142)	—	(16,417)	—	(68,559)
ZTE Romania S.R.L	100%	(7,483)	—	(6,269)	—	(13,752)
ZTE (Malaysia) Corporation SDH.BHD.	100%	(2,579)	—	(5,211)	—	(7,790)
ZIMAX (Cayman) Holdings Ltd.	100%	33,167	—	12,165	—	45,332
西安中興精誠通訊有限公司	70%	12,298	—	1,732	(1,050)	12,980
Closed Joint Stock Company TK Mobile	51%	14,329	—	(3,120)	—	11,209
PT. ZTE Indonesia	99.5%	5,577	—	68,280	—	73,857
深圳中興力維技術有限公司	30%	15,356	—	21,603	(1,500)	35,459
		2,779,384	38,161	2,103,214	(2,346,810)	2,573,949

* RMB2,102,454,000 included in Increase/decrease of equity during the year was current year's equity.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

10. Long-term investments (continued)

The Company (continued)

(7) *Jointly-controlled entities*

Investee	Share of registered capital	Opening balance	Increase/ decrease of equity during the year	Dividends of cash during the year	Closing balance
Beijing Zhongxingxin Communication Equipment Company Limited	50%	4,613	(797)	—	3,816

(8) *Associates*

Investee	Share of registered capital	Opening balance	Increase/ decrease of investment cost during the year	Increase/ decrease of equity during the year	Closing balance
北京中興遠景科技有限公司	30%	286	—	30	316
KAZNURTEL Limited Liability Company	49%	2,478	—	—	2,478
中興軟件技術(南昌)有限公司	30%	2,354	—	939	3,293
ZTE IC Design Co., Ltd	40%	13,218	—	2,608	15,826
		18,336	—	3,577	21,913

(9) *Equity investments under cost method*

Investee	Share of registered capital	Opening balance	Increase/ decrease of investment cost during the year	Closing balance
深圳市創新投資集團有限公司	0.33%	5,000	—	5,000
北京中視聯數字系統有限公司	7.59%	3,240	—	3,240
SunTop Technologies Ltd.	26.54%	24	—	24
Beijing Zhongxing Intelligent Transportation Systems Ltd	19%	1,024	—	1,024
中移鼎訊通信股份有限公司	16%	32,000	—	32,000
貴州艾瑪特信息超市項目開發有限公司	10%	—	200	200
		41,288	200	41,488

(10) *Difference in equity investments*

Investee	Opening balance	Amortization in Current year	Increase/ decrease of investment cost during the year	Closing balance
Congo-Chine Telecom S.A.R.L.	(10,316)	1,719	—	(8,597)
Shenzhen guoxin Electronics Development Company Limited	13,036	—	—	13,036
	2,720	1,719	—	4,439

(11) *Provision for impairment of long-term investment:*

	Opening and closing balance
Shenzhen Guoxin Electronics Development Company Limited	13,036

There was no significant restriction relating to the Group's realization of investment.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

11. Fixed assets

	Buildings	Leasehold improvement	Motor Vehicles	Machinery equipment	Electronic equipment	Other equipment	Total
Cost:							
Opening balance	917,623	51,631	210,369	1,009,942	1,419,878	14,497	3,623,940
Additions	584	10,482	40,399	208,510	424,238	5,600	689,813
Transferred from Construction in progress	17,587	9,591	—	—	33,374	—	60,552
Disposal and retirement	—	—	(12,375)	(21,704)	(92,846)	(1,401)	(128,326)
Exchange realignments	(469)	—	(349)	(873)	(9,893)	179	(11,405)
Closing balance	935,325	71,704	238,044	1,195,875	1,774,751	18,875	4,234,574
Accumulated depreciation:							
Opening balance	110,451	28,046	64,229	331,685	607,436	6,942	1,148,789
Provision	33,943	19,327	23,589	132,769	290,035	3,638	503,301
Disposal and retirement	—	—	(7,502)	(10,704)	(74,478)	(858)	(93,542)
Exchange realignments	(35)	—	(105)	(79)	(2,582)	(33)	(2,834)
Closing balance	144,359	47,373	80,211	453,671	820,411	9,689	1,555,714
Fixed assets, net:							
31 December, 2006	790,966	24,331	157,833	742,204	954,340	9,186	2,678,860
31 December, 2005	807,172	23,585	146,140	678,257	812,442	7,555	2,475,151
Provision for impairment:							
31 December, 2006	7,708	—	—	1,475	77,819	—	87,002
31 December, 2005	7,708	—	—	1,475	85,797	—	94,980
Fixed assets, net:							
31 December, 2006	783,258	24,331	157,833	740,729	876,521	9,186	2,591,858
31 December, 2005	799,464	23,585	146,140	676,782	726,645	7,555	2,380,171

As at the balance sheet date, the buildings of which the net book value amounted to RMB100,189,722 had been frozen as a means of guarantee to the interest of the plaintiff in a legal issue. Further details are given in Note VIII to the financial statements, Contingent liabilities.

Book value at cost of fixed assets in continued use for which full depreciation had been made was RMB229,981,000. Book value of retired fixed assets or fixed assets pending for disposal was RMB0.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

12. Construction in progress

Name of construction project	Budget	Opening balance	Increase/ (decrease) during the year	Transfer to fixed assets during the year	Closing Balance	Source of funds	Status of project
Science and Technology Park R&D Center	300,000	12,195	15,003	27,198	—	Internal resources	Completed
Liuxiangdong ZTE Industrial Park	1,300,000	46,665	145,153	—	191,818	Internal resources	Work in progress
New plant in Wuxi	16,000	14,589	2,998	17,587	—	Internal resources	Completed
IT chamber of R&D complex	—	9,440	—	9,440	—	Internal resources	Completed
Equipment installment	—	34,129	26,618	—	60,747	Internal resources	Work in progress
Nanjing II phase	—	6,008	84,449	—	90,457	Internal resources	Work in progress
Shanghai II phase	—	1,162	91,505	—	92,667	Internal resources	Work in progress
Others	—	2,553	37,721	6,327	33,947	Internal resources	Work in progress
	1,616,000	126,741	403,447	60,552	469,636		

The balance of construction in progress at year end increased dramatically by 270% compared with that at the beginning of the year, which was mainly attributable to the increased investment in the construction of Nanjing, Shanghai research and development centers and Liuxiangdong ZTE Industrial Park.

13. Intangible assets

	Initial amount	Method of possession	Opening balance	Increase (decrease) during the year	Amortization during the year	Accumulated amortization	Closing balance	Remaining years for amortization
Software	272,443	Acquisition	108,993	42,234	45,700	166,916	105,527	5
Patent technology	1,354	Acquisition	1,354	—	316	316	1,038	1-10
Land use rights	14,866	Acquisition	12,859	1,533	366	840	14,026	50
Operating concession	103,006	Acquisition	64,014	(1,608)	3,182	43,782	59,224	19
			187,220	42,159	49,564	211,854	179,815	

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

13. Intangible assets (continued)

Provision for impairment of intangible assets is as follows:

	Opening balance	Addition during the year	Diminution during the year		Closing balance
			Increase in value	Other transfer	
Software	12,884	—	—	—	12,884
Land use rights	6,322	—	—	—	6,322
Operating concession	7,750	—	—	—	7,750
	26,956	—	—	—	26,956

14. The Group entered into an international construction contract with Algeria Telecom for the provision of telecommunications equipment. Pursuant to the agreement, a subsidiary of the Group will share certain portion of the operating revenue of Algeria Telecom for the five years after the commissioning of the project, and the ownership of these telecommunications equipments shall be transferred to Algeria Telecom after 5 years at nil consideration. As at 31 December 2006, part of the project was completed. Such assets would be amortized over a period of 5 years since the commissioning of the project in current year.

Item	Original cost	Opening balance	Increase during the year	Amortization during the year	Accumulated amortization	Closing Balance

The balance of long-term deferred assets at the end of the year increased by 189% compared with that at the beginning of the year, which was mainly due to the increase of investment in the aforesaid project.

15. Deferred tax debit

	2006	2005
Unrealized profit of stock	7,298	4,474
Provision for maintenance	34,562	37,350
Tax Losses	51,141	—
Overseas tax	87,516	—
Inventories provision	53,166	39,069
Deferred tax debit	233,683	80,893

The balance of deferred tax debit at year end increased substantially by 189% compared with that at the beginning of the year. It was a result of the rise of deferred corporate income tax, which would be levied in the coming financial years.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
 (All amounts in RMB'000 unless otherwise stated)
 (English translation for reference only)

V EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

16. Short-term loans

	2006		2005	
	Original currency	RMB equivalent	Original currency	RMB equivalent
Credit loans	RMB78,900	78,900	RMB52,000	52,000
	USD95,000	741,826	—	—
Pledged loans	RMB125,000	125,000	PKR353,300	47,695
		945,726		99,695

The balance of short-term loans at year end increased dramatically by 849% compared with that at the beginning of the year, owing to the increase in loans denominated in United States dollars in order to facilitate the need of liquid capital.

17. Notes payable

No outstanding amount due to shareholders holding 5% or more in the shares as at the year end.

18. Trade payables

Of the balance of accounts payable, RMB147,860,000 was due from shareholders holding 5% or more in the shares of the Company. Please refer to Note VII to the financial statements, *Relationship with connected parties and connected transactions*.

19. Advances from customers

No outstanding amount of shareholders holding 5% or more in the shares of the Company.

20. Dividend payable

	2006	2005
Holders of State-owned corporate shares	—	3,186
Holders of domestic corporate shares/domestic investors	83,941	159,822
	83,941	163,008

The balance of dividend payable at year-end decreased by RMB79,067,000 compared to that at the beginning of the year. The decrease was mainly a result of less dividend payment having been paid by the subsidiaries of the Company to minority Shareholders.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

21. Taxes payable

	2006	2005
Value-added tax ("VAT")	(1,023,281)	(802,209)
Business tax	4,752	5,508
City maintenance and construction tax	6,000	(794)
Income tax		
PRC tax	67,950	42,020
Overseas tax	229,963	72,652
Property tax	22	18
Individual income tax	14,936	12,523
	(699,658)	(670,282)

The bases of calculation of taxes and tax rate of taxes payable are set out in Note III to the financial statements, *Tax*.

22. Other payables

The balance of the account comprised RMB361,000 payable to shareholders holding 5% or more in the shares of the Company. Please refer to Note VII to the financial statements, *Relationship with connected parties and connected transactions*.

23. Accrued expenses

	2006	2005
Interest expenses	664	395
Rent and water and electricity charges	2,332	4,541
Work installation expenses	35,984	14,972
Product maintenance fee	230,417	248,998
After-sale service fee	25,735	8,924
Promotion expenses	23,264	7,960
Others	69,223	60,878
	387,619	346,668

24. Provision

	2006	2005
Provision of guarantees for external parties	4,035	4,035
Guarantees for quality of products	31,645	16,000
	35,680	20,035

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
 (All amounts in RMB'000 unless otherwise stated)
 (English translation for reference only)

V EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

25. Long-term loans due within one year

	Notes	2006	2005
Long-term loans	26	—	500,000

26. Long-term loans

	2006		2005	
	Original currency	RMB equivalent	Original currency	RMB equivalent
Credit loans	RMB 900,026	900,026	—	—
	USD 55,000	429,479	—	—
Guaranteed loans	USD 9,648	80,000	USD 9,648	80,000
			RMB 500,000	500,000
Pledged loans	USD 34,543	269,737	—	—
Less: long-term loans due within one year	—	—		500,000
		1,679,242		80,000

The balance of long-term loans increased dramatically by 2000% compared with that at the beginning of the year. The increase mainly resulted from the need for operating and construction capital.

27. Specific payables

	2006	2005
Technology appropriations	425,669	405,511

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

28. Share capital

The Company has registered and paid-in capital of RMB959,521,650 with a par value of RMB1 each. Shares were classified and structured as follows:

	Opening balance		Increase (decrease) during the year	Closing balance	
	Number of Shares	Percentage		Number of Shares	Percentage
I. Circulating shares					
(I) Restricted Shares					
1. State owned corporate shares	392,080	40.86%	(81,097)	310,983	32.41%
2. Other domestic shares	12,714	1.32%	(11,433)	1,281	0.13%
Including					
Domestic corporate shares	11,433	1.19%	(11,433)	—	—
Domestic natural person shares	1,281	0.13%	—	1,281	0.13%
3. Foreign shares					
Foreign corporate shares	18,291	1.91%	(18,291)	—	—
Total number of restricted shares	423,085	44.09%	(110,821)	312,264	32.54%
(II) Unrestricted shares					
1. RMB ordinary shares	376,286	39.22%	110,821	487,107	50.77%
2. Overseas listed foreign shares	160,151	16.69%	—	160,151	16.69%
Total number of unrestricted shares	536,437	55.91%	110,821	647,258	67.46%
Total circulating shares	959,522	100.00%	—	959,522	100.00%
II. Total of shares	959,522	100.00%	—	959,522	100.00%

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
 (All amounts in RMB'000 unless otherwise stated)
 (English translation for reference only)

V EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

29. Capital reserve

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Equity settled share expense	—	2,480	—	2,480
Share premium	5,462,657	—	—	5,462,657
Provision for equity investments	38,398	—	—	38,398
Provision for acceptance of non-cash asset donation	62	—	—	62
Other capital reserve*	5,307	762	—	6,069
	<u>5,506,424</u>	<u>3,242</u>	<u>—</u>	<u>5,509,666</u>

* Other capital reserve represented the disposal of accounts payable overdue for 3 years by the Group.

30. Surplus reserves

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Surplus reserves	1,264,060	66,999	—	1,331,059

In accordance with the Company Law of the PRC and the articles of associations, the Company and certain of its subsidiaries are required to allocate 10% of their profit after tax, as determined in accordance with PRC accounting standards and regulations applicable to these companies, to the statutory surplus reserve (the "SSR") until such reserves reach 50% of the registered capitals of these companies. Part of the SSR may be capitalised as these companies' share capitals, provided that the remaining balances after the capitalisation are not less than 25% of the registered capitals of these companies.

In previous years, the Company and certain of its subsidiaries are required to transfer 5% to 10% of their profit after tax, as determined in accordance with PRC accounting standards and regulations applicable to these companies, to statutory public welfare fund (the "PWF"). According to the "Company Law of the People's Republic of China (2005 revised)" that took effect as of 1 January 2006, and the modified articles of associations, the Company and its subsidiaries will not allocate the PWF starting from 2006. The balance of PWF as at 31 December 2005 was transferred to the SSR. Certain of the Company's subsidiaries are Chinese-foreign equity joint ventures. In accordance with the "Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures" and their respective articles of associations, these subsidiaries are required to allocate certain of their profit after tax as determined in accordance with PRC accounting standards and related regulations to enterprise determined by their respective board of directors.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

31. Undistributed profit

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Undistributed profit	2,171,190	807,353	(210,927)	2,767,616

The decrease during the year comprised the payment of RMB1.5 in cash for every 10 share or an aggregate of RMB143,928,000 on the basis of the total share capital as at 31 December 2006 according to the 2006 profit distribution plan declared by the second meeting of the fourth session of the Board of Directors of the Company and transfers to the statutory reserve. Profit available for distribution to owners was carried at the lower of the financial statements prepared under PRC GAAP and those under HKFRSs.

32. Revenue and cost of sales

Revenue from principal operations refers to the revenue from sales of products and labour services. Segment information of the Group and the Company is set out in the business and geographical segments given in Note VI.

Sales to the top five customers of the Group generated revenue of RMB9,171,419,000 and RMB10,124,082,000 in 2006 and 2005 respectively, accounting for 39.82% and 46.92% of the sales revenue of the Group respectively.

33. Taxes and surcharges

	2006	2005
Business tax	33,277	16,499
City maintenance and construction tax	20,785	20,260
Education surcharge	30,930	44,632
Others	26,368	24,269
	111,360	105,660

34. Profit from other operations

	2006	2005
Rental of equipment lease	27,813	—
Technology service and consultation fee	39,633	15,379
Others	1,706	400
	69,152	15,779

Profit from other operations increased by 338% compared with last year, which was mainly attributable to the increase in both the equipment rental income and the technology service income.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
 (All amounts in RMB'000 unless otherwise stated)
 (English translation for reference only)

V EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

35. Finance Expenses

	2006	2005
Interest expenses	153,694	175,884
Less: Interest income	49,050	54,870
Gain/losses on exchange	29,422	48,390
Cash discounts and interest subsidy	41,018	59,746
Bank charges	64,533	59,601
	239,617	288,751

36. Investment income

The Group

	2006	2005
Gain from stock investment	24,326	—
Share of net gain/losses of jointly-controlled entities	8,175	(2,968)
Share of net gain/losses of associates	(652)	(1,716)
Gain on transfer of equity investment	—	1,598
Amortisation of differences in equity investment	—	(812)
Writing off of long-term investments	—	(55,456)
	31,849	(59,354)

As at the balance sheet date, the Group was not subject to significant restrictions in remitting its investment income.

The amount of investment income increased by RMB91,203,000, which was mainly attributable to the increased gain from stock investment as well as the decrease in long-term investment impairment of the Group.

The Company

	2006	2005
Share of net gain/losses of subsidiaries	2,102,454	925,160
Share of net gain/losses of associates	(797)	(1,698)
Share of net gain/losses of jointly-controlled entities	3,577	(1,381)
Gain/losses on transfer of equity investment	—	1,598
Amortisation of differences in equity investment	1,719	907
Writing off of long-term investments	—	(4,873)
	2,106,953	919,713

As at the balance sheet date, the Company was not subject to significant restrictions in remitting its investment income.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (THE FOLLOWING REPRESENTS GROUP FIGURES UNLESS OTHERWISE STATED) (continued)

37. Subsidies income

Item	2006	2005
Refund of VAT on software products*	547,027	435,326
Financial subsidies on essential new products	—	8,900
Preferential financial subsidies on new products	12,872	3,500
Others	52,264	10,288
	612,163	458,014

* Refund of VAT on software products represents the refund upon payment of VAT according to the portion of any effective VAT rate in excess of 3% in respect of software product sales by a subsidiary of the Company, pursuant to the principles of Certain Policies to Encourage the Development of Software Enterprise and the IC Industry and the approval reply of the State taxation authorities in Shenzhen.

The amount of subsidies income for the current year increased by 33.66% compared with that of last year, which was mainly due to the increase of value-added tax refund for software products of the Group.

38. Non-operating income

	2006	2005
Gains from disposal of fixed assets	2,660	909
Income from penalty payment	4,260	9,367
Income from compensation payment	9,200	10,000
Reward income	7,747	5,107
Others	141	2,244
	24,008	27,627

39. Non-operating expenses

	2006	2005
Provision for impairment of intangible assets	—	2
Net loss on writing off of fixed assets and intangible assets	17,545	7,072
Donations	329	2,218
Penalties	7,226	5,638
Others	1,051	1,792
	26,151	16,722

The amount of non-operating expenses increased by 56.39% compared with that of last year, which was mainly a result of the increase in net loss on writing off fixed assets.

40. Other cash outflow from operating activities

Other cash outflow from operating activities in the consolidated cash flow statement at 31 December 2006 was RMB2,225,655,000, comprising mainly operating expenses and administrative expenses.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
 (All amounts in RMB'000 unless otherwise stated)
 (English translation for reference only)

VI SEGMENT INFORMATION BY INDUSTRY AND REGION

The Group

Items of principal operations	Revenue from principal operations		Costs of sales		Gross profit	
	2006	2005	2006	2005	2006	2005
Communication system construction income	16,874,334	17,016,057	10,345,808	10,208,099	6,528,526	6,807,958
Communication terminal equipment income	5,778,546	4,333,082	4,562,979	3,574,985	1,215,567	758,097
Telecommunications service income	378,804	226,781	263,010	161,713	115,794	65,068
Total	23,031,684	21,575,920	15,171,797	13,944,797	7,859,887	7,631,123

Geographical segments	Revenue from principal operations		Costs of sales		Gross profit	
	2006	2005	2006	2005	2006	2005
Domestic	12,801,765	13,874,309	8,553,924	9,364,085	4,247,841	4,510,224
Overseas	10,229,919	7,701,611	6,617,873	4,580,712	3,612,046	3,120,899
Total	23,031,684	21,575,920	15,171,797	13,944,797	7,859,887	7,631,123

The Company

Items of principal operations	Revenue from principal operations		Costs of sales		Gross profit	
	2006	2005	2006	2005	2006	2005
Communication system construction income	15,476,765	16,408,812	13,600,610	13,175,302	1,876,155	3,233,510
Communication terminal equipment income	5,738,818	4,156,240	5,245,984	3,496,520	492,834	659,720
Total	21,215,583	20,565,052	18,846,594	16,671,822	2,368,989	3,893,230

Geographical segments	Revenue from principal operations		Costs of sales		Gross profit	
	2006	2005	2006	2005	2006	2005
Domestic	11,951,417	13,439,004	10,599,837	10,925,688	1,351,580	2,513,316
Overseas	9,264,166	7,126,048	8,246,757	5,746,134	1,017,409	1,379,914
Total	21,215,583	20,565,052	18,846,594	16,671,822	2,368,989	3,893,230

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

VII RELATIONSHIP WITH CONNECTED PARTIES AND CONNECTED TRANSACTIONS

1. Connected parties with controlling relationship

Name of corporation	Principal operations	Place of registration	Relationship with the company	Percentage of Shares or equities	Economic nature or category	Legal representative
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	Production of programmed switchboard cabinets, telephones and related components, and electronic products; import and export operations	Shenzhen, Guangdong	Controlling shareholder of the Company	37.41%	State-owned	Zhang Taifeng

2. Registered capital of connected parties with controlling relationship and its movements

Name of corporation	Opening balance	Addition During the year	Reduction during the year	Closing balance
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	10,000	90,000	—	100,000

The balance was RMB10,000,000 at the end of the year. An addition of RMB90,000,000 was recorded during the year.

3. Movements in shares or equity held by connected parties with controlling relationship:

Name of corporation	Opening balance	%	Addition during the year	%	Reduction during the year	%	Closing balance	%
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	358,959	37.41%	—	—	—	—	358,959	37.41%

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

VII RELATIONSHIP WITH CONNECTED PARTIES AND CONNECTED TRANSACTIONS (continued)

4. Relationship with connected parties with non-controlling relationship:

Details for connected parties with non-controlling relationship were as follow:

Name of related companies	Relationship with the Company
Shenzhen Zhongxing WXT Equipment Company, Ltd. Xi'an Microelectronics Technology Research Institute Shenzhen Zhongxing Information Technology Co., Ltd.	Shareholder of the Company's controlling shareholder Shareholder of the Company's controlling shareholder Partially holding company of the shareholder of the Company's controlling shareholder
Beijing Yuanjing Technology Co., Ltd. 深圳市聚飛光電有限公司	Associate Associate
Wuxi KaiEr Technology Company, Limited	Associate
Shenzhen Weigao Semiconductor Company, Limited ZTE IC Design Co., Ltd	Associate Associate
Shenzhen Decang Technology Company Limited	Associate
Shenzhen Smart Electronics Company, Limited.	Associate
Shenzhen Zhongxing Xinyu FPC Company, Limited	Associate
Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	Under the same controlling shareholder as the Company
Lishan Microelectronics Research Institute 吉林省郵電器材總公司	Shareholder of the Company Shareholder of the Company
湖南南天集團有限公司	Shareholder of the Company
Beijing Zhongxingxin Communication Equipment Company, Limited	Subsidiary jointly-controlled by the Company
中興軟件技術(南昌)有限公司	Associate
Shenzhen Gaodonghua Communication Technology Co., Ltd.	Partially holding company of the shareholder of the Company's controlling shareholder
Shenzhen Zhongxing Development Co., Ltd.	Partially holding company of the shareholder of the Company's controlling shareholder
Chung Hing (Hong Kong) Development Limited	Company controlled by key management personnel of the Company
中太數據通訊(深圳)有限公司	Company controlled by key management personnel of the Company
深圳市中興新舟成套設備有限公司	Under the same controlling shareholder as the Company

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

VII RELATIONSHIP WITH CONNECTED PARTIES AND CONNECTED TRANSACTIONS (continued)

5. Major transactions between the Group and related companies during the year were as follow:

(1) Sales of goods to the connected parties:

Item	Names of companies	2006	2005
Sales of goods	Shenzhen Zhongxing Information Technology Co., Ltd.	1,704	7,910
	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	3,682	545
	Beijing Zhongxingxin Communication Equipment Company Limited	38	3,248
	Beijing Zhongxing Yuanjing Technology Co., Ltd	862	2,815
	ZTE IC Design Co., Ltd	16,889	9,025
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	5,632	5,233
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	915	13
	深圳市中興新舟成套設備有限公司	302	—
	Shenzhen Decang Technology Company Limited	351	—
	中興軟件技術(南昌)有限公司	31,910	—
	Shenzhen Zhongxing Development Co., Ltd.	364	—

(2) Purchase of raw materials from connected parties:

Item	Names of companies	2006	2005
Purchase of raw materials	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	359,439	311,970
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	133,646	184,326
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	76,558	84,327
	Shenzhen Zhongxing Information Technology Co., Ltd	6,821	16,163
	Xi'an Microelectronics Technology Research Institute	5,524	7,718
	Shenzhen Zhongxing Xinyu FPC Company, Limited	16,217	41,623
	Chung Hing (Hong Kong) Development Limited	217	8,166
	ZTE IC Design Co., Ltd.	66,144	36,380
	WuXi KaiEr Science and Technology Company, Limited	19,342	11,957
	Shenzhen Decang Technology Company, Limited	12,974	5,874
	深圳市新舟成套設備有限公司	14,604	—
	深圳市聚飛光電有限公司	6,625	—
	深圳思碼特電子有限公司	774	—

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

VII RELATIONSHIP WITH CONNECTED PARTIES AND CONNECTED TRANSACTIONS (continued)

5. Major transactions between the Group and related companies during the year were as follow: (continued)

(3) Other major related transaction:

Item	2006	2005
Conversion of equities	—	1,024

Notes:

- (1) Sales of goods to connected parties: Goods were sold to connected parties by the Group at market price during the year.
- (2) Purchase of materials from connected parties: Raw materials, parts and ancillary materials were purchased by the Group from connected parties at market price during the year.

6. Amounts due from/to connected parties

Items	Name of connected parties	Closing balance	Opening balance	
Trade payables	Shenzhen Smart Electronics Company, Limited.	73	—	
	深圳市中興新舟成套設備有限公司	9,833	—	
	Shenzhen Zhongxingxin Telecommunication Equipment Company, Limited	147,860	104,563	
	Shenzhen Zhongxin WXT Equipment Company, Ltd.	34,365	65,870	
	Shenzhen Zhongxing Information Technology Co., Ltd.	2,133	14,910	
	Shenzhen Zhongxing Xinyu FPC Company, Limited	2,241	6,005	
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	21,879	27,490	
	Shenzhen Gaodonghua Communication Technology Co., Ltd.	792	1,408	
	Beijing Zhongxingxin Communication Equipment Company Limited	301	182	
	Xi'an Microelectronics Technology Research Institute	—	2,616	
	Chung Hing (Hong Kong) Development Limited	66	954	
	ZTE IC Design Co., Ltd	9,348	11,067	
	Shenzhen Decang Technology Company Limited	1,487	3,156	
	WuXi KaiEr Science and Technology Company, Limited	6,768	—	
	Other payables	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	361	313
		Lishan Microelectronics Research Institute	65	—
Shenzhen Zhongxing WXT Equipment Company, Ltd.		12	—	
Beijing Zhongxingxin Communication Equipment Company Limited		—	1,024	
Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited		—	132	
吉林省郵電器材總公司		65	—	
Shenzhen Zhongxing Information Technology Co., Ltd.		48	—	
Shenzhen Smart Electronic Company, Ltd.		300	—	
湖南南天集團有限公司		130	—	

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

VII RELATIONSHIP WITH CONNECTED PARTIES AND CONNECTED TRANSACTIONS (continued)

6. Amounts due from/to connected parties (continued)

Items	Name of connected parties	Closing balance	Opening balance
Notes payable	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	58	—
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	—	3,040
	Shenzhen Zhongxing Xinyu FPC Company, Limited	—	3,173
	Shenzhen Zhongxing Information Technology Co., Ltd.	—	401
	ZTE IC Design Co., Ltd	1,660	775
	Shenzhen Decang Technology Company Limited	2,772	559
Accounts prepaid	ZTE IC Design Co., Ltd	182	—
	中太數據通信(深圳)有限公司	75	—
	Shenzhen Zhongxing Information Technology Co., Ltd.	3,608	3,464
Other receivables	Beijing Zhongxing Information Technology Co., Ltd.	—	1,038
Trade receivables	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	2,074	177
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	—	9,053
	Shenzhen Zhongxing Information Technology Co., Ltd.	146	3,062
	Beijing Zhongxingxin Communication Equipment Company Limited	1,560	2,070
	Xi'an Microelectronics Technology Research Institute	9	—
	Shenzhen Zhongxing Development Co., Ltd.	32	—
	ZTE IC Design Co., LTD	2,459	2,150
	中興軟件技術(南昌)有限公司	7,314	—
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	362	—
	深圳市中興新舟成套設備有限公司	129	—
Shenzhen Decang Technology Company, Limited	410	—	
Advances from customers	Xi'an Microelectronics Technology Research Institute	—	154
	Beijing Zhonxing Yuanjing Technology Co., Ltd.	—	765
	Shenzhen Weigao Semiconductor Company, Limited	4,644	—
Dividend receivables	Shenzhen Zhongxing Xinyu FPC Company, Limited	1,136	—
Dividends payable	Shenzhen Zhongdxing WXT Equipment Company, Ltd.	—	14,837
	Lishan Microelectronics Research Institute	—	936
	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	—	2,250
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	—	2,299
Notes receivable	Shenzhen Zhongxing Information Technology Co., Ltd.	—	700
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	—	499

Amounts due from/to connected parties were interest-free, unsecured and had no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

VIII. CONTINGENT EVENTS

1. In November 2005, a Higher People's Court ("the 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 compensation for 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. Meanwhile, RMB31 million of the Group's cash had been frozen and RMB117.2 million worth of properties had been pledged as a means by which the Court guarantee the interests of the plaintiff's. In the opinion of the directors, based on legal advice from the Company's lawyer engaged in this action, the subsidiary of the Group and the Company had 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.
2. 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 had been made on the claims. In the opinion of the directors, based on legal advice from the Company's lawyer engaged in the action, the Company had valid defences against the claims brought in the arbitration. The directors currently believed 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 was made in the financial statements.

3. On 18 August 2005, the Company received a notice of arbitration from a foreign consultant in respect of a claim for consultancy fee, agency fee and compensation fee for undue delay in honouring payment which totalled approximately USD1,714,000 (equivalent to approximately RMB13,384,000). Subsequently, the foreign consultant raised their claim to approximately USD2,143,000 (equivalent to approximately RMB16,734,000).

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 had 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.

4. During the year, ZTE Pakistan private Limited, the subsidiary of the Group in Pakistan had 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 for additional custom duties of approximately Rs.177 million (equivalent to approximately RMB23.9 million), which was subsequently raised to approximately Rs.240 million (equivalent to approximately RMB31.2 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. The Central Board of Revenue referred all disputes between the parties to the Alternate Dispute Resolution Committee ("the Committee") for resolution and on 5 September 2005, the Committee had recommended in favour of the subsidiary of the Group.

As at the approval date of these financial statements, no decision had 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 had made an accrual of RMB4 million accordingly in the Group's financial statements for the year ended 31 December 2006. In the opinion of the directors, based on legal advice from the Company's lawyer engaged for this action, the subsidiary of the Group had 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.

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

VIII. CONTINGENT EVENTS (continued)

5. In August 2006, a foreign customer requested an arbitration for a claim against the Company, for Rs.762,982,000 (equivalent to approximately RMB97,980,000), in respect of the failure by the Company to honour a contract. As at the approval date of these financial statements, the arbitration body had not made any decision regarding the case; while in return, the Company launched a claim against the foreign customer for failure in honouring the contract. As at the approval date of these financial statements, no decision had been made in the arbitration and neither did the Company pay any compensation regarding the arbitration. Based on the legal advice from the Company's lawyer engaged for this action, the directors reckoned the case would not have any material and adverse impact on the Group's financial position.
6. As at 31 December 2006, the Group had outstanding bank guarantees amounting to RMB5,200,588,000.

IX. COMMITMENTS

	2006	2005
Capital commitments		
Contracted but not provided for	795,991	231,561
Lease commitments	201,371	183,425
Investment commitments	80,331	21,065
	1,077,693	436,051

X. POST BALANCE SHEET EVENT

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

XII. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were resolved and approved by the Board of Directors of the Company on 18 April 2007.

APPENDIX I

(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)**1. RECONCILIATION OF DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG FINANCIAL REPORTING STANDARDS**

Major differences between the financial statements prepared under PRC Accounting Rules and Regulations ('PRC GAAP') and the financial statements prepared under the Hong Kong Financial Reporting Standards are as follow:

	2006		2005	
	Net profit	Net asset	Net profit	Net asset
Under PRC GAAP	807,353	10,678,911	1,194,343	10,125,095
Differences in accounting standards				
Technology grants and research expenses under different accounting standards	(50,234)	126,946	106,740	177,182
Provision for retirement benefits under accounting standards generally accepted in Hong Kong	(1,599)	(32,058)	(1,536)	(30,459)
Recognition of excess over the cost of business combination	—	—	9,460	—
Deferred tax debit	(1,454)	(22,760)	(21,306)	(21,306)
Adjustments to previous financial statements as a result of changes in accounting estimates	16,595	16,595	—	—
Financial guarantee contract expenses	(3,689)	(3,689)	—	—
Prepared under Hong Kong financial reporting standards	766,972	10,763,945	1,287,701	10,250,512

2. FULLY DILUTED AND WEIGHTED AVERAGE NET RETURN ON ASSETS AND EARNINGS PER SHARE

	Profit for the reporting period	Return on net assets		Earnings per share	
		Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal operations	7,748,527	72.56%	74.44%	8.08	8.08
Operating profit	427,748	4.01%	4.11%	0.45	0.45
Net profit	807,353	7.56%	7.76%	0.84	0.84
Net profit after extraordinary items	753,809	7.06%	7.24%	0.79	0.79

APPENDIX I

(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

2. FULLY DILUTED AND WEIGHTED AVERAGE NET RETURN ON ASSETS AND EARNINGS PER SHARE (continued)

Net profit after extraordinary items is listed below:

		2006
Net profit		807,353
Add (less):	Subsidy income	(65,136)
	Non-operating income	(24,008)
	Non-operating expenses	26,151
	Income tax effect on extraordinary items	9,449
Net profit after extraordinary items		753,809

The Company recognised extraordinary items in accordance with the Rule No.1 of Questions and Answers for Information Disclosure and Report Compilation by Companies with Public Listed Securities under Kuai Ji Zi [2004] No.4 promulgated by the China Securities Regulatory Commission.

3. BREAKDOWN OF PROVISIONS FOR ASSET IMPAIRMENT

		Opening balance	Addition during the year	Reduction during the year	Closing balance
I.	Provision of bad debt	1,173,211	697,744	(423,354)	1,447,601
	Including: Trade receivables	445,246	284,493	(172,882)	556,857
	Other receivables	727,965	413,251	(250,472)	890,744
II.	Provision for impairment of inventories	515,958	115,058	(182,354)	448,662
	Including: Raw materials	86,161	65,124	(20,114)	131,171
	Materials under sub-contract processing	1,599	—	(1,599)	—
	Work in progress	5,779	4,147	(1,349)	8,577
	Finished goods	422,419	45,787	(159,292)	308,914
III.	Provision for impairment of long-term investments	13,036	—	—	13,036
	Including: Long-term equity investment	13,036	—	—	13,036
	Long-term bond investment	—	—	—	—
IV.	Provision for impairment of fixed assets	94,980	—	(7,978)	87,002
	Including: Buildings	7,708	—	—	7,708
	Machinery	1,475	—	—	1,475
	Electronic equipment	85,797	—	(7,978)	77,819
V.	Provision for impairment of intangible assets	26,956	—	—	26,956
	Including: Land use rights	6,322	—	—	6,322
	Software	12,884	—	—	12,884
	Operating concession	7,750	—	—	7,750

APPENDIX II

Statement of reconciliation of differences between shareholders' equity prepared in accordance with the current and the new PRC Accounting Standards and the auditors' review report (All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

ZTE Corporation**Review report on reconciliation of differences between shareholders' equity prepared in accordance with the current and the new PRC Accounting Standards**

Ernst & Young Hua Ming (2007) Zhuan Zi No. 60438556-H01

To ZTE Corporation:

We have reviewed the accompanying statement of reconciliation of differences between shareholders' equity prepared in accordance with the current and the new PRC Accounting Standards (the "Reconciliation Statement") of ZTE Corporation (the "Company") as at 31 December 2006 and 1 January 2007 which has been prepared in accordance with the basis of preparation set out in note II of the Reconciliation Statement. In accordance with the "Accounting Standards for Business Enterprises No.38 — First time adoption of Accounting Standards for Business Enterprises" and the "Pronouncement on proper disclosure of financial information in accordance with the New Accounting Standards" ("CSRC" (2006) No.136, the "Pronouncement") and other relevant regulations, preparation of the Reconciliation Statement is the responsibility of management of the Company. Our responsibility is to issue a review report on the Reconciliation Statement based on our review work.

As required by the relevant regulations of the Pronouncement, we performed our review in accordance with "the Independent Reviewing Standards for the Chinese Certified Public Accountants No.2101 — review of financial statements". Those standards require us to plan and perform the review so as to obtain moderate assurance about whether the Reconciliation Statement is free of material misstatement. The review is limited primarily to making enquiries to the responsible personnel on the relevant accounting policies and all material assertions, understanding the calculation process of adjustments included in the Reconciliation Statement, reviewing the Reconciliation Statement to assess whether it is prepared in accordance with the basis of preparation and performing analytical review if required. A review provides less assurance than an audit. We did not perform an audit, thus we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Reconciliation Statement is not prepared in accordance with the "Accounting Standards for Business Enterprises No.38 — First time adoption of Accounting Standards for Business Enterprises" and the Pronouncement and other relevant regulations in all material respects.

Ernst & Young Hua Ming

Beijing, the People's Republic of China

Xie Feng

Chinese certified public Accountant

Li Di

Chinese Certified Public Accountant

18 April 2007

APPENDIX II

Statement of reconciliation of differences between shareholders' equity prepared in accordance with the current and the new PRC Accounting Standards and the auditors' review report (All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

Important information:

On 1 January 2007 the Company adopted the "Accounting Standards for Business Enterprises" issued by the Ministry of Finance (the "MOF") in 2006 (the "New Accounting Standards"). Currently the Company is assessing the impact of adoption of the New Accounting Standards on its financial position, operating results and cash flow. After taking into consideration any further explanation provided by the MOF, the Company may adjust the relevant accounting policies or material assertions when it prepares the 2007 financial statements and the statement of reconciliation of differences between shareholders' equity prepared in accordance with the current and the new PRC Accounting Standards (the "Reconciliation Statement"). This may cause a difference in shareholders' equity between the reported amount in this Reconciliation Statement at 1 January 2007 and the one to be reported in the 2007 financial statements.

APPENDIX II

Statement of reconciliation of differences between shareholders' equity prepared in accordance with the current and the new PRC Accounting Standards and the auditors' review report (All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

ZTE Corporation

Statement of reconciliation of differences between shareholders' equity prepared in accordance with the current and the new PRC Accounting Standards

Type	Note	Name	Amount
	3.(1)	Consolidated shareholders' equity as at 31 December 2006 (Under Current Accounting Standards)	10,678,911
1	3.(2)	Provision for retirement benefits	(32,058)
2	3.(3)	Financial assets at fair value through profit or loss	16,595
3	3.(4)	Other financial liabilities	(3,689)
4	3.(5)	Recognition of government grants	<u>(2,803)</u>
		Company shareholders' equity as at 1 January 2007 (Under New Accounting Standards)	<u>10,656,956</u>
5	3.(6)	Changes in minority interests	<u>561,892</u>
		Consolidated shareholders' equity as at 1 January 2007 (Under New Accounting Standards)	<u>11,218,848</u>

The accompanying notes to the Reconciliation Statement form part of this Statement.

Hou Weigui
Legal Representative

Wei Zaisheng
Chief Financial Officer

Shi Chunmao
Head of Finance Division

APPENDIX II

Statement of reconciliation of differences between shareholders' equity prepared in accordance with the current and the new PRC Accounting Standards and the auditors' review report (All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

Notes for the statement of reconciliation of differences between shareholders' equity prepared in accordance with the current and the new PRC Accounting Standards

1. Purpose of preparation

The Company will adopt the New Accounting Standards from 1 January 2007. For analysis and disclosure of the impact of adoption of the New Accounting Standards on the financial position of listed companies, the China Securities Regulatory Commission ("CSRC") issued in November 2006 a "Pronouncement on proper disclosure of financial information in accordance with the New Accounting Standards" ("CSRC" (2006) No.136, the "Pronouncement"). The Pronouncement requires listed companies to disclose material reconciliation in the form of reconciliation statement in their 2006 financial statements as "supplementary information" in accordance with the "Accounting Standards for Business Enterprises No. 38 — First time adoption of Accounting Standards for Business Enterprises" and the relevant regulations in the Pronouncement.

2. Basis of preparation

In accordance with the "Accounting Standards for Business Enterprises No.38 — First time adoption of Accounting Standards for Business Enterprises" paragraph 5 to 19, the relevant regulations in the Pronouncement and "the Expert Group Opinions about the implementation issue of the Accounting Standards for Business Enterprises" issued by the MOF on 1 February 2007 (the "Expert Group Opinion"), the Reconciliation Statement is prepared based on the 2006 consolidated financial statements by applying the materiality principle and taking into consideration the Company's/Group's characteristics and conditions. The Company has prepared the statement of reconciliation of differences between shareholders' equity prepared in accordance with the current and the new PRC Accounting Standards (the "Reconciliation Statement") in accordance with the above mentioned requirements.

In addition, the Reconciliation Statement is prepared according to the following principles:

- (1) For subsidiaries, associates and jointly controlled entities, adjustments are made in accordance with paragraphs 5 to 19 of the "Accounting Standards for Business Enterprises No.38 — First time adoption of Accounting Standards for Business Enterprises". For those events which affect the Company's retained profits and its share of net assets, the Company would adjust the retained profits or capital reserve accordingly.
- (2) Where consolidation is required, the Company adjusts the minority interests in accordance with the New Accounting Standards and reflects them as a separate component in the Reconciliation Statement.
- (3) The provision for retirement benefits was recognised in accordance with the "Accounting Standards for Business Enterprises No. 9 — Employee compensation".

APPENDIX II

Statement of reconciliation of differences between shareholders' equity prepared in accordance with the current and the new PRC Accounting Standards and the auditors' review report (All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

Notes for the statement of reconciliation of differences between shareholders' equity prepared in accordance with the current and the new PRC Accounting Standards (continued)

3. Notes for Key Items

- (1) The amount of the consolidated shareholders' equity extracted from the consolidated balance sheet as at 31 December 2006 which is prepared in accordance with the current Accounting Standards for Business Enterprises, the Accounting System for Financial Institutions and other relevant regulations applicable to the Company and the Group (the "Current Accounting Standards"). The financial statements have been audited by Ernst & Young Hua Ming with an unqualified audit opinion issued on 17 April 2007 (Ernst & Young Hua Ming (2007) Zhuan Zi No.60438556-H01). Please refer to the Company's financial statements for 2006 for the relevant basis of preparation and significant accounting policies.
- (2) The cost of provision for retirements benefit is recognised on an actuarial basis, which is expensed when the employees are on the post. The adjustment brings about a decrease of the shareholders' equity, approximating RMB32,058,000.
- (3) The amount of financial assets at fair value through profit or loss represents the fair value gains on an equity investment by the subsidiaries of the Group, which brings about an increase of the shareholders' equity, amounting to RMB16,595,000.
- (4) The amount of other financial liabilities represents the recognition of a financial guarantee contract measured at fair value, which brings about a decrease of the shareholders' equity, amounting to RMB3,689,000.
- (5) The amount of recognition of government grants is the grants obtained by the Group from the government for specific research and development projects through profit and loss for the current period. The adjustment brings about a decrease of shareholders' equity, approximating RMB2,803,000.
- (6) Minority interests of RMB561,892,000 are separately presented in the consolidated balance sheet from liabilities and equity under the Current Accounting Standards. Under the New Accounting Standards it is disclosed separately as a component under equity.

APPENDIX III

Statement of Changes in Shareholders' Equity
(Prepared under PRC GAAP)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

	2006	2005
I. Share capital		
Opening balance	959,522	959,522
Addition during the year	—	—
Including: Transfer from capital reserve	—	—
Transfer from surplus reserve	—	—
Transfer from profit allocation	—	—
Share capital as enlarged by issue of new shares	—	—
Bonus share issue	—	—
Reduction during the year	—	—
Closing balance	959,522	959,522
II. Capital reserve		
Opening balance	5,506,424	5,491,658
Addition during the year	3,242	14,766
Including: Share capital premium	—	—
Appreciation from asset valuation	—	—
Receipt of non-cash assets as donation	—	—
Exchange difference in respect of capital denominated in foreign currency	—	—
Provision for equity investment	—	9,459
Equity settled share expense	2,480	—
Others	762	5,307
Reduction during the year	—	—
Including: transfer to share capital	—	—
Closing balance	5,509,666	5,506,424
III. Statutory and discretionary surplus reserves		
Opening balance	1,264,060	733,350
Addition during the year	66,999	530,710
Including: Appropriations from net profit	66,999	185,802
Transfer from statutory public welfare fund	—	344,908
Reduction during the year	—	—
Including: making up of losses	—	—
Transfer to share capital	—	—
Distribution of cash dividend	—	—
Distribution of scrip dividend	—	—
Closing balance	1,331,059	1,264,060
Including: Statutory surplus reserve	986,151	919,152
IV. Undistributed profits		
Undistributed profit at the beginning of the year	2,171,190	1,495,431
Net profit for the year	807,353	1,194,343
Profit distribution for the year	(210,927)	(518,584)
Undistributed profits at the end of the year	2,767,616	2,171,190