

**ZTE中兴** 中兴通讯股份有限公司  
ZTE CORPORATION

stock code: 000063.SZ  
763.HK

**2007**  
Annual Report

# IMPORTANT

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

Mr. Hou Weigui, Chairman of the Company, Mr. Wei Zaisheng, Chief Financial Officer of the Company and Mr. Shi Chunmao, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness and completeness of the financial reports contained in this annual report.

This annual report has been considered and approved at the thirteenth meeting of the fourth session of the Board of Directors of the Company. Mr Zhang Junchao, Director, was unable to attend the meeting due to work reasons and authorised in writing Mr. Wang Zongyin, Vice Chairman, to vote on his behalf.

There are no Directors, Supervisors or senior management who do not warrant or who dispute the truthfulness, accuracy and completeness of the contents of this annual report.

The respective financial statements of the Group for the year ended 31 December 2007 were prepared in accordance with generally accepted accounting principles in the PRC (“PRC GAAP”) and with Hong Kong Financial Reporting Standards (“HKFRSs”) respectively, and had been audited by Ernst & Young Hua Ming and Ernst & Young, and an unqualified auditors’ report has been issued by each of them.

This report has been prepared in Chinese and English respectively. In case of discrepancy, the Chinese version shall prevail, except for the financial statements prepared in accordance with HKFRSs, of which the English version shall prevail.

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# DEFINITIONS

In this annual report, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in the section headed “Glossary”.

“Articles of Association”	The Articles of Association of ZTE Corporation.
“Board of Directors”	The board of directors of the Company.
“CASC”	China Aerospace Science and Technology Corporation and its subsidiaries.
“CASIC”	CASIC (Group) Company, Limited and its subsidiaries.
“Changfei”	Shenzhen Changfei Investment Company, Limited.
“China” or “PRC”	People’s Republic of China.
“China Mobile”	China Mobile Communications Corporation and its subsidiaries.
“China Netcom”	China Network Communications Group Corporation and its subsidiaries.
“China Telecom”	China Telecommunications Corporation and its subsidiaries.
“China Unicom”	China United Telecommunications Corporation and its subsidiaries.
“Company” or “ZTE”	ZTE Corporation, a joint stock limited company incorporated in China on 11 November 1997 under the Company Law of the People’s Republic of China, the A shares and H shares of which are listed on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange respectively.
“CSRC”	China Securities Regulatory Commission.
“Group”	One or more of ZTE and its subsidiaries.
“HKFRSs”	Hong Kong Financial Reporting Standards (“HKFRS”), Hong Kong Accounting Standards (“HKAS”) and Interpretations.
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited.
“Hong Kong Stock Exchange Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time).
“Hongde”	Shenzhen Hongde Battery Company, Limited.
“ITU”	International Telecommunications Union, a specialised agency for telecommunications within the United Nations, the primary aim of which is to coordinate the operation of telecommunications network and services and advance the development of communications technology.
“Kangquan”	Shenzhen Kangquan Electromechanical Company, Limited.
“Lead”	Shenzhen Lead Communications Company, Limited.
“PRC GAAP”	Generally accepted accounting principles in China.
“Ruide”	Shenzhen Ruide Electronic Industrial Company, Limited.
“Shenzhen CSRC”	The CSRC Shenzhen Bureau.

“Shenzhen Stock Exchange”	The Shenzhen Stock Exchange of China.
“Supervisors”	Members of the Supervisory Committee of the Company.
“Xi’an Microelectronics”	Xi’an Microelectronics Technology Research Institute.
“Zhongxing Development”	Shenzhen Zhongxing Development Co., Ltd.
“Zhongxing WXT”	Shenzhen Zhongxing WXT Equipment Company, Ltd.
“Zhongxing Xindi”	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited.
“Zhongxing Xinyu”	Shenzhen Zhongxing Xinyu FPC Company, Limited.
“Zhongxing Xinzhou”	Zhongxing Xinzhou Complete Equipment Co.,Ltd.
“Zhongxingxin”	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited.
“ZTE HK”	ZTE (H.K.) Limited.
“ZTE Kangxun”	ZTE Kangxun Telecom Company Limited.
“ZTE Software”	Shenzhen ZTE Software Company, Limited.

## GLOSSARY

**This glossary contains certain definitions of technical terms used in this annual report as they relate to the Group. Some of these definitions may not correspond to standard industry definitions or usage.**

“3G”	The third generation of wireless networks. These networks should be able to support peak data rates of 144 Kbps at mobile user speeds, 384 Kbps at pedestrian user speeds and 2 Mbps in fixed locations (peak speeds), although some initial deployments were configured to support just 64 Kbps. ITU coordinates 3G standards through its IMT-2000 project and incorporates the key standards bodies, 3GPP and 3GPP2.
“ADSL”	Asymmetrical digital subscriber lines, a method of transmitting data over traditional copper telephone lines. Data can be downloaded at speeds of up to 1.547 Mbps and uploaded at speeds of 128 Kbps.
“CDMA”	Code division multiple access, one of the standards for 2G mobile communications. It is a spread spectrum technology standard that assigns a pseudo-noise (PN) code to all speech and data bits, sends a scrambled transmission of the encoded speech over the air and reassembles the speech in its original format. By assigning a unique correlating code to each transmitter, several simultaneous conversations can share the same frequency allocations.
“DSL”	Digital subscriber lines, the collective name given to a number of techniques used for transmitting digital data over the local loop or subscriber line. These are also known as xDSL. Examples are ADSL, HDSL, VDSL, MDSL and RDSL.
“GSM”	A global system for mobile communications, a digital cellular phone system standard that originated in Europe. It is deployed in more than 170 countries and uses a TDMA radio propagation scheme.
“IP”	Internet protocol, as more specifically defined in RFC 791, the primary purpose of which is to define packet architecture and address format.
“TD-SCDMA”	Time division synchronous code division multiple access, a 3G technology developed in China to support voice and data transmission.
“WCDMA”	Wideband CDMA, a UMTS standard for 3G digital mobile networks adopting CDMA technologies to provide enhanced capacity for voice with a theoretical maximum data rate of 3Mbps.

# COMPANY PROFILE

The Company is listed on the Shenzhen Stock Exchange and the Main Board of the Hong Kong Stock Exchange. The Group is one of the leading providers of high technology telecommunications equipment in China.

In November 1997, the Company conducted an initial public offering of A shares for listing on the Shenzhen Stock Exchange. The Company is currently the largest telecommunications equipment manufacturer in China's A share market in terms of market capitalisation, sales revenue and net profit. In December 2004, the Company conducted an initial public offering of H shares for listing on the Main Board of the Hong Kong Stock Exchange, making the Company the first A-share company to be listed in the Main Board of Hong Kong.

The Group is dedicated to the design, development, production, distribution and installation of a broad range of advanced telecommunications systems and equipment, including wireless communications systems, wireline switch and access equipment, optical and data communications equipment, handsets and telecommunications software systems and services.

The Group is one of the major telecommunications equipment suppliers in China's telecommunications market and has also succeeded in gaining access to the global telecommunications market with respect to each of its major product segments. The Group has achieved a leading market position for its telecommunications products in China with longstanding business ties with China's leading telecommunications service providers, including China Mobile, China Telecom, China Unicom and China Netcom. With respect to the global telecommunications market, the Group has sold its products to over 500 customers in more than 100 countries and regions around the world, including telecommunications service providers in Italy, India, Indonesia, Pakistan, Thailand, Russia, Nigeria, Egypt and Hong Kong. The Group has established long-term business cooperation with global telecommunications service providers including Hutchison Telecom, France Telecom, Vodafone and Telefonica.









## CORPORATE INFORMATION

1. Legal name (in Chinese) 中興通訊股份有限公司  
Chinese abbreviation 中興通訊  
Legal name (in English) ZTE Corporation  
English abbreviation ZTE
2. Legal representative Hou Weigui
3. Secretary to the Board of Directors Feng Jianxiong  
Joint company secretaries Feng Jianxiong, Ngai Wai Fung  
Securities affairs representative Li Lihong  
Correspondence Address ZTE Plaza, Keji Road South, Hi-Tech Industrial Park,  
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People's Republic of China  
Telephone +86 755 2677 0282  
Facsimile +86 755 2677 0286  
E-mail fengjianxiong@zte.com.cn
4. Registered and office address ZTE Plaza, Keji Road South, Hi-Tech Industrial Park,  
Nanshan District, Shenzhen, Guangdong Province,  
People's Republic of China  
Postal code 518057  
Website <http://www.zte.com.cn>  
E-mail fengjianxiong@zte.com.cn  
Principal place of business in Hong Kong 8/F Gloucester Tower, The Landmark, 15 Queen's Road  
Central, Central, Hong Kong
5. Authorised representatives Yin Yimin  
Block 710 Liantang Pengji Industrial Zone, Luohu District  
Shenzhen, Guangdong Province  
People's Republic of China  
Feng Jianxiong  
c/o ZTE Corporation  
ZTE Plaza, Keji Road South, Hi-Tech Industrial Park,  
Nanshan District, Shenzhen, Guangdong Province,  
People's Republic of China

6. Newspapers designated for information disclosure by the Company
- Domestic*
- China Securities Journal  
Securities Times  
Shanghai Securities News
- Hong Kong*
- The Standard (English)  
Hong Kong Economic Times (Chinese)
- Authorised websites on which this report is made available  
http://www.cninfo.com.cn  
http://www.hkexnews.hk
- Place where this report is available for inspection  
ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China
7. Listing information
- A shares  
Shenzhen Stock Exchange  
Stock code: 000063  
Stock name: 中興通訊
- Bonds  
Shenzhen Stock Exchange  
Bond Code: 115003  
Abbreviated Name of Bond: 中興債1
- Warrants  
Shenzhen Stock Exchange  
Warrant Code: 031006  
Abbreviated Name of Warrant: 中興ZXC1
- H shares  
Hong Kong Stock Exchange  
Stock code: 763  
Stock name: ZTE
8. Hong Kong share registrar and transfer office
- Computershare Hong Kong Investor Services Limited  
Shops 1712-16, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

9. Legal advisers
- As to Chinese law*
- Jun He Law Offices  
20th Floor, China Resources Building  
Beijing, People's Republic of China
- As to Hong Kong and US law*
- Morrison & Foerster  
Edinburgh Tower,  
41/F, The Landmark  
15 Queen's Road Central  
Central, Hong Kong
10. Auditors
- PRC*
- Ernst & Young Hua Ming  
21/F, China Resources Building  
5001 Shennan Dong Road  
Shenzhen, Guangdong Province  
People's Republic of China
- Hong Kong*
- Ernst & Young  
18/F, Two International Finance Centre  
8 Finance Street  
Central, Hong Kong
11. Other related information
- Initial registration date 11 November 1997
- Initial registered address 6th Floor, No. 710 Building  
Liantang Pengji Industrial Zone  
Luohu District  
Shenzhen, Guangdong Province  
People's Republic of China
- Date of change of registration 29 September 2000
- Current registered address ZTE Plaza  
Keji Road South, Hi-Tech Industrial Park,  
Nanshan District,  
Shenzhen, Guangdong Province  
People's Republic of China
- Licence registration no. 4403011015176
- Tax registration certificate number 44030127939873X
- Entity code 27939873-X

# CHAIRMAN'S STATEMENT



Dear Shareholders:

The Group continued to enjoy rapid business growth and delivered sound operating results in 2007, with the benefit of ongoing economic growth in China and steady development in the telecommunications market both at home and abroad.

## OPERATING RESULTS

The Group's sales revenue for 2007 amounted to RMB34.777 billion, representing a year-on-year growth of 49.81%, while net profit grew 63.26% to RMB1,252 million. Basic earnings per share amounted to RMB1.30. The Group's international business continued to develop rapidly in 2007 as sales revenue from international business grew 94.83% to RMB20.091 billion to account for 57.77% of the Group's overall sales revenue.

## BUSINESS DEVELOPMENT

Against a backdrop of increasing competition in the global communications market, the Group ensured growth on all business fronts in 2007 on the back of dedicated staff efforts by leveraging opportunities presented by realignments in domestic carriers' investment profile and rapid development in emerging global markets. Rapid growth was recorded in respect of products like GSM, TD-SCDMA, handsets and optical communications systems, resulting in substantial increase in market share that puts the Group in a strong position for future, long-term development.

While maintaining stable growth in traditional products such as GSM, CDMA and optical transmission equipment, the Group also increased investments in TD-SCDMA and WCDMA in 2007. Our improving competitive edge had enabled us to broaden our scope of cooperation with global mainstream carriers, laying solid foundations for closer business ties with these major players in future.

At home, the Group also succeeded in maintaining fast business growth as it consolidated its internal resources to put a firm grip on opportunities presented by network capacity expansion projects by domestic carriers and large-scale trial commercial applications of TD-SCDMA. On the international front, the Group increased investments in emerging markets such as the Asia Pacific region and North Africa in close tandem with global market trends in the communications sector. By making swift response to market developments, we were able to achieve fast growth in our international business, which contributed significantly to our rapid overall business growth in 2007.

Also playing a pivotal role in procuring the Group's domestic and international business development were enhanced efforts in organisational realignments and internal resource consolidation in 2007, with an aim to improve management efficiency. The consolidation of research and development institutions, realignment of organisational structure and measures to improve the cost leadership strategy all contributed to our rapid business development during the year.



## CORPORATE GOVERNANCE

A well-established corporate governance structure is a prerequisite to successful operating results. In this connection, the Group conducted a self-inspection and self-correction process on corporate governance in 2007 in accordance with pertinent requirements of the CSRC. A document titled Opinion on Corporate Governance of ZTE Corporation (Shen Zheng Ju Gong Si Zi [2007] No. 70) was issued by Shenzhen Securities Regulatory Bureau, stating that the Company had placed a strong emphasis on corporate governance projects and had completed the self-inspection and public scrutiny processes on corporate governance in diligent fulfillment of the regulatory requirements of the China Securities Regulatory Commission and Shenzhen Securities Regulatory Bureau.

The fourth sessions of the Board of Directors and the Supervisory Committee of the Company were elected in 2007. Under the leadership of the new session of the Board of Directors, the Group will continue to improve corporate governance standards and endeavour to enhance its enterprise value.

## DIVIDEND DISTRIBUTION

It has been the Group's long-term objective to maximise enterprise value and a top priority for the Group to reward shareholders and enhance their interests. In view of the Group's positive operating results in 2007 and taking into account the Group's overall financial conditions and cash flow, the dividend distribution proposal for 2007 recommended by the Board of Directors will be as follows: a cash dividend of RMB2.5 for every 10 shares (including tax) and the creation of 4 shares for every 10 shares by way of capitalisation of capital reserves. The Group remains committed to long-term development, seeking to grow from strength to strength to optimise shareholders' value.

## FUTURE PROSPECTS

Looking to the year ahead, there will be opportunities as well as challenges in the domestic communications market as carriers prepare themselves for transition, while intensifying competition is expected in the international arena. The gradual rollout of 3G construction projects in China, fast growth of the handset and optical communications sectors and the ongoing rapid growth of emerging global markets should combine positively in favour of the Group's development. We will continue to implement the strategies of product differentiation and cost leadership, increase logistical efficiency and enhance product quality, sustaining rapid business growth by reinforcing our presence in the domestic market while swiftly expanding overseas.

In 2008, the Group will focus on the following:

In the ensuing year, the Group will seek to reach new benchmarks in the sales of new products in Europe and North America by capturing new market shares among global mainstream carriers and increasing efforts in new product customisation.

In China, the Group will seek to sustain rapid business expansion underpinned by growing market shares in the GSM, TD-SCDMA, CDMA and handset sectors, to be achieved on the back of strengthened ties with domestic mainstream carriers like China Mobile, China Telecom, China Unicom and China Netcom for opportunities in the carrier transition process as well as diligent execution of the Group's stated strategies.

In the forthcoming year, the Board of Directors will continue to dedicate its efforts to improving the Company's corporate governance structure and increasing operational transparency, delivering strong results to reward shareholders and the community on the back of rapid development of the home markets for 3G products, handsets and optical communications systems coupled with continued growth of the international market for communications products.

**Hou Weigui**  
*Chairman*

Shenzhen, PRC  
20 March 2008







## MAJOR EVENTS



### FEBRUARY 2007

ZTE entered into a cooperation agreement with Vodafone of the U.K., the global mobile communications carrier, pursuant to which ZTE will supply brand-compliant handsets to Vodafone.

### MARCH 2007

ZTE was named one of the “Top Ten Overseas-listed PRC Companies” in “Business Week”.

### MARCH 2007

Phase I Share Incentive Scheme of ZTE was considered and approved at the first extraordinary general meeting of 2007.

### JUNE 2007

ZTE and majority-owned subsidiary Shenzhen Zhongxin Telecom Equipment Technology & Service Company, Limited signed a business contract with China Mobile in respect of the construction project for the extended trial network for TD-SCDMA large-scale network technology application organised by the latter.

### OCTOBER 2007

ZTE launched two new handset models at the Beijing Round of the “3G Pioneering Exposure” program, i.e. U980 (TD-SCDMA/EDGE dual mode) and MU318 (TD-SCDMA USB Modem).

### NOVEMBER 2007

ZTE received the “2007 CIMA Best Employer in China Award” at CIMA’s first “Best Employer in China Award Ceremony” held in Shanghai, becoming the first domestic PRC company to receive this major international award in management accounting.



# ACCOUNTING AND FINANCIAL DATA HIGHLIGHTS

## (1) MAJOR FINANCIAL DATA OF THE GROUP FOR THE YEAR PREPARED IN ACCORDANCE WITH PRC GAAP

Unit: RMB in millions

Items	Amount
Operating profit	1,000.8
Gross profit	1,727.7
Net profit attributable to shareholders of the listed company	1,252.2
Net profit after extraordinary items attributable to shareholders of the listed company	1,245.9
Net cash flow from operating activities	88.4

Extraordinary items and amounts that have been deducted are as follows:

Unit: RMB in millions

Extraordinary items	Amount
Non-operating income	120.4
Reversal of welfare	66.2
Less: non-operating expenses	179.2
Effect of extraordinary items on income tax	1.1
Total	6.3

Items and amounts measured at fair value are as follows:

Unit: RMB in millions

Items	Opening balance	Closing balance	Change during the current period	Impact on profit of the current period (amount)
Tradable financial assets	33.3	123.6	90.3	153.2
Tradable financial liabilities	0	7.9	7.9	(8.1)
Financial guarantee contracts	3.7	3.7	0	0
Provision for retirement benefits	32.1	34.4	2.3	(2.3)
Total	69.1	169.6	100.5	142.8

(2) MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE GROUP FOR THE PAST THREE YEARS PREPARED IN ACCORDANCE WITH PRC GAAP

1. Major accounting data of the Group for the past three years prepared in accordance with PRC GAAP

Items	For the year ended	For the year ended		Year-on-year change after adjustment	For the year ended	
	31 December 2007 (current year)	31 December 2006 (previous year) Before adjustment	31 December 2006 (previous year) After adjustment		31 December 2005 Before adjustment	31 December 2005 After adjustment
Sales revenue	<b>34,777.2</b>	23,214.6	23,214.6	<b>49.81%</b>	21,740.7	21,740.7
Gross profit	<b>1,727.7</b>	1,069.6	1,030.7	<b>67.62%</b>	1,501.9	1,605.8
Net profit attributable to shareholders of the listed company	<b>1,252.2</b>	807.4	767.0	<b>63.26%</b>	1,194.3	1,287.7
Net profit after extraordinary items attributable to shareholders of the listed company	<b>1,245.9</b>	753.9	713.4	<b>74.64%</b>	1,212.9	1,306.3
Net cash flow from operating activities	<b>88.4</b>	(1,555.0)	(1,548.10)	<b>105.71%</b>	177.3	177.3

Items	As at	As at		Year-on-year change after adjustment	As at	
	31 December 2007 (end of current year)	31 December 2006 (end of previous year) Before adjustment	31 December 2006 (end of previous year) After adjustment		31 December 2005 Before adjustment	31 December 2005 After adjustment
Total assets	<b>39,173.1</b>	25,916.9	25,760.7	<b>52.07%</b>	21,779.1	21,660.7
Shareholders' equity attributable to shareholders of the listed company	<b>12,137.2</b>	10,678.9	10,763.9	<b>12.76%</b>	10,125.1	10,250.5

## 2. Major financial indicators of the Group for the past three years prepared in accordance with PRC GAAP

Items	For the year ended 31 December 2007	For the year ended 31 December 2006 (end of previous year)		Year-on-year change after adjustment	For the year ended 31 December 2005	
	(end of current year)	Before adjustment	After adjustment		Before adjustment	After adjustment
Basic earnings per share (RMB)	1.30	0.84	0.80	62.50%	1.24	1.34
Diluted earnings per share (RMB)	1.29 <sup>Note</sup>	0.84	0.80	61.25%	1.24	1.34
Basic earnings per share after extraordinary items (RMB)	1.30	0.79	0.74	75.68%	1.26	1.36
Fully diluted return on net assets (%)	10.32	7.56	7.13	Increase by 3.19 percentage points	11.80	12.56
Weighted average return on net assets (%)	10.94	7.76	7.30	Increase by 3.64 percentage points	12.40	13.23
Fully diluted return on net assets after extraordinary items (%)	10.26	7.06	6.63	Increase by 3.63 percentage points	11.98	12.74
Weighted average return on net assets after extraordinary items (%)	10.88	7.24	6.79	Increase by 4.09 percentage points	12.59	13.42
Net cash flow from operating activities per share (RMB)	0.09	(1.62)	(1.61)	105.59%	0.18	0.18

Items	As at 31 December 2007 (end of current year)	As at 31 December 2006 (end of previous year)		Year-on-year change after adjustment (%)	As at 31 December 2005	
		Before adjustment	After adjustment		Before adjustment	After adjustment
Net asset per share attributable to shareholders of the listed company (RMB)	12.65	11.12	11.22	12.75%	10.55	10.68

Note: In accordance with PRC enterprise accounting standards, diluted earnings per share is calculated on the basis of net interests attributable to the listed company (representing the effective total share capital of the Company (which remained unchanged at 959,521,650 shares during the period from 1 January 2007 to the date up to which this report was made) plus 20% of the 47.98 million potentially dilutive ordinary shares representing Subject Shares quota granted under the Phase I Share Incentive Scheme of the Company).

**(III) MAJOR FINANCIAL INFORMATION OF THE GROUP PREPARED IN ACCORDANCE WITH HKFRSs**

Unit: RMB in millions

	For the year ended 31 December				
	2007	2006	2005	2004	2003
<b>Results</b>					
Revenue	<b>34,777.2</b>	23,214.6	21,740.7	21,261.4	17,095.9
Cost of sales	<b>(23,415.0)</b>	(15,365.9)	(14,101.7)	(13,813.5)	(11,226.1)
Gross profit	<b>11,362.2</b>	7,848.7	7,639.0	7,447.9	5,869.8
Other income and revenue	<b>1,028.0</b>	724.7	516.9	492.8	192.2
Research and development costs	<b>(3,210.4)</b>	(2,832.7)	(1,959.5)	(2,265.2)	(1,535.7)
Selling and distribution costs	<b>(4,531.5)</b>	(3,274.7)	(3,186.4)	(2,799.6)	(1,981.5)
Administrative expenses	<b>(1,718.2)</b>	(1,097.6)	(1,095.4)	(981.4)	(869.0)
Other expenses	<b>(898.2)</b>	(191.5)	(128.6)	(162.4)	(213.9)
Profit from operating activities	<b>2,031.9</b>	1,176.9	1,786.0	1,732.1	1,461.9
Finance costs	<b>(328.3)</b>	(153.7)	(175.9)	(140.4)	(171.2)
Share of profit and loss of jointly controlled entities and associates	<b>24.1</b>	7.5	(4.2)	3.1	(3.5)
Profit before tax	<b>1,727.7</b>	1,030.7	1,605.9	1,594.8	1,287.2
Tax	<b>(276.2)</b>	(127.1)	(179.9)	(115.0)	(198.6)
Profit before minority interests	<b>1,451.5</b>	903.6	1,426.0	1,479.8	1,088.6
Attributable to:					
Minority interests	<b>(199.3)</b>	(136.6)	(138.3)	(207.3)	(60.3)
Attributable to:					
Shareholders of parent company	<b>1,252.2</b>	767.0	1,287.7	1,272.5	1,028.3

Unit: RMB in millions

	As at 31 December				
	2007	2006	2005	2004	2003
<b>Assets and liabilities</b>					
Total assets	<b>40,977.9</b>	26,787.2	22,464.0	21,007.8	16,476.4
Total liabilities	<b>28,089.5</b>	15,461.4	11,742.8	11,312.2	11,649.9
Minority interests	<b>751.2</b>	561.9	470.7	478.4	226.6
Shareholders' equity attributable to the parent company	<b>12,137.2</b>	10,763.9	10,250.5	9,217.2	4,599.9

**(IV) MAJOR FINANCIAL INDICATORS OF THE GROUP PREPARED IN ACCORDANCE WITH HKFRSS**

	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Basic earnings per share (RMB/share)	<b>1.30</b>	0.80	1.34	1.57	1.28
Net asset per share (RMB/share)	<b>12.65</b>	11.22	10.68	9.61	6.89
Return on net assets	<b>10.32%</b>	7.13%	12.56%	13.81%	22.35%

Note: The above financial indicators represent figures excluding minority interests.

**(V) THE AMOUNTS OF NET PROFIT AND NET ASSET OF THE GROUP FOR THE YEAR ENDED AND AS AT 31 DECEMBER 2007 CALCULATED IN ACCORDANCE WITH PRC GAAP ARE ENTIRELY CONSISTENT WITH THOSE CALCULATED UNDER HKFRSS.**







## CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

### (1) CHANGES IN SHARE CAPITAL DURING THE YEAR

(Unit: shares)

	At the beginning of the year		Increase/decrease as a result of the change (+,-)					At the end of the year	
	Number of shares	Percentage (%)	Issue of new shares	Bonus issue	Transfer from capital reserve	Others (Note)	Sub-total	Number of shares	Percentage (%)
I. Shares subject to lock-up	312,264,805	32.54	—	—	—	(310,073)	(310,073)	311,954,732	32.51
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned legal person shares	310,982,741	32.41	—	—	—	—	—	310,982,741	32.41
3. Other domestic shares	1,282,064	0.13	—	—	—	(310,073)	(310,073)	971,991	0.10
Comprising: Domestic legal person shares	—	—	—	—	—	—	—	—	—
Domestic natural person shares (including shares held by senior management)	1,282,064	0.13	—	—	—	(310,073)	(310,073)	971,991	0.10
4. Foreign shares	—	—	—	—	—	—	—	—	—
Comprising: Foreign legal person shares	—	—	—	—	—	—	—	—	—
Foreign natural person shares	—	—	—	—	—	—	—	—	—
II. Shares not subject to lock-up	647,256,845	67.46	—	—	—	310,073	310,073	647,566,918	67.49
1. RMB ordinary shares	487,105,805	50.77	—	—	—	310,073	310,073	487,415,878	50.80
2. Domestic-listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares (H shares)	160,151,040	16.69	—	—	—	—	—	160,151,040	16.69
4. Others	—	—	—	—	—	—	—	—	—
III. Total number of shares	959,521,650	100	—	—	—	—	—	959,521,650	100

Note: The change in the number of domestic natural person shares subject to lock-up was attributable to the partial release for A shares held by Directors, Supervisors and senior management of the Company in accordance with relevant PRC regulations during the reporting period. Details of the change is set out in "1. Table of changes in shares subject to lock-up" under the section headed "(2) Changes in shares subject to lock-up".

## (2) CHANGES IN SHARES SUBJECT TO LOCK-UP

## 1 Table of changes in shares subject to lock-up

Name of shareholders	Number of shares subject to lock-up at the beginning of the year	Number of shares unlocked during the year	Increase in the number of shares subject to lock-up during the year	Number of shares subject to lock-up at the end of the year	Reasons for lock-up	Date of unlocking
Zhongxingxin	310,982,741	0	0	310,982,741	Shares subject to lock-up issued under share reform	Please see table below
Hou Weigui	219,600	54,900	0	164,700	Senior management shares subject to lock-up	25% portion of A shares held by Directors, Supervisors and senior management of the Company was unlocked on 22 May 2007 in accordance with relevant PRC regulations.
Yin Yimin	121,680	30,420	0	91,260	Senior management shares subject to lock-up	
Shi Lirong	95,760	23,940	0	71,820	Senior management shares subject to lock-up	
He Shiyou	91,007	22,752	0	68,255	Senior management shares subject to lock-up	
Zhang Taifeng	121,680	30,420	0	91,260	Senior management shares subject to lock-up	
Qu Deqian	10,020	2,505	0	7,515	Senior management shares subject to lock-up	
Wei Zaisheng	95,760	23,940	0	71,820	Senior management shares subject to lock-up	
Xie Daxiong	44,839	11,210	0	33,629	Senior management shares subject to lock-up	
Zhou Susu	95,760	23,940	7,500 <sup>Note 1</sup>	79,320	Senior management shares subject to lock-up	
Tian Wenguo	24,300	6,075	0	18,225	Senior management shares subject to lock-up	
Fang Rong	41,385	10,346	0	31,039	Senior management shares subject to lock-up	
Chen Jie	94,500	23,625	0	70,875	Senior management shares subject to lock-up	
Ding Mingfeng	61,756	15,439	0	46,317	Senior management shares subject to lock-up	
Ye Weimin	33,804	8,451	0	25,353	Senior management shares subject to lock-up	
Ni Qin	78,840	19,710	0	59,130	Senior management shares subject to lock-up	
Zhang Chuanhai	9,900	9,900	0	0	Senior management shares subject to lock-up	
Zhang Xiufa	41,473	0	0	41,473	Shares subject to lock-up held by former senior management	Yet to be unlocked owing to personal reasons
<b>Total</b>	<b>312,264,805</b>	<b>317,573</b>	<b>7,500</b>	<b>311,954,732</b>		

Note 1: On 12 November 2007, Ms. Zhou Susu, Senior Vice President of the Company, purchased 10,000 A shares of the Company, out of which 75% were automatically locked up pursuant to relevant PRC laws and regulations and added to the outstanding balance of shares subject to lock-up.



## 2 Time for listing and trading of shares subject to lock-up held by Zhongxingxin

No.	Name of shareholders subject to lock-up	Numbers of shares held subject to lock-up (shares)	Time for listing and trading	Number of additional shares to be listed and traded (shares)	Lock-up conditions
1	Zhongxingxin	310,982,741	29 December 2007 <sup>(Note 2)</sup>	47,976,083	Note 1
			29 December 2008	263,006,658	

Note 1: The following undertakings relating to the Share Reform Plan were made by Zhongxingxin, the largest shareholder of the Company:

Statutory undertakings: to comply with the laws, regulations and rules and perform its statutory obligations, namely not to transfer or trade the listed shares, which are converted from the Non-circulating Shares, held by it within 12 months from the first trading day after implementation of the Share Reform Plan; and not to sell its original Non-circulating Shares amounting to more than five per cent (5%) of the total share capital of the Company by way of trading subsequent to their listing on the Shenzhen Stock Exchange within 12 months and not to sell more than ten per cent (10%) within 24 months after the above lock-up period.

Special undertakings: Where Zhongxingxin sells its shares during the period from the 13th month to the 24th month after such shares have been granted the right of listing and circulation on the Shenzhen Stock Exchange, the price at which the shares are sold shall not be less than RMB30.76 per share, which is 115% of the mathematical average of the closing prices of its A shares for the 60 trading days prior to the initial announcement made by the directors of the Company regarding the Share Reform Plan, that is, RMB26.75 per share (such price to be calculated on an ex-rights basis and net of any dividends, bonus issues and capitalisation of capital reserve during the period from the implementation date of the Share Reform Plan to the date of sale). The proceeds from any sale by Zhongxingxin in breach of such undertaking shall be reverted to the Company's account for the benefit of all shareholders of the Company. The price of "RMB30.76" specified in the special undertaking by Zhongxingxin set out above has been adjusted to "RMB30.36" following the implementation of the 2005 and 2006 profit distribution plans of the Company on 14 July 2006 and 27 July 2007. Zhongxingxin had fulfilled this special undertaking.

Note 2: Scheduled partial unlocking on 29 December 2007 was postponed to 3 January 2008 as the period coincided with public holidays. For details, please refer to the Indicative Announcement of ZTE Corporation on the Release of Locked-up Shares published on the designated information disclosure website on 3 January 2008.

### (3) ISSUE AND LISTING OF SECURITIES

1. The Company did not issue any securities in the three preceding years ended 31 December 2007. The Company completed the issue of bonds cum warrants on 22 February 2008. For details, please refer to the section headed "(6) Issue of bonds cum warrants by the Company" under Section "XII. Material Matters" of this annual report.
2. The Company had no employees' shares.



**(4) SHAREHOLDERS AND DE FACTO CONTROLLER****1. Top ten shareholders of the Company and top ten holders of shares not subject to lock-up as at 31 December 2007**

Total number of shareholders 43,348 shareholders (of which 43,017 were holders of A shares and 331 were holders of H shares)

<b>Top ten shareholders</b>					
<b>Name of shareholders</b>	<b>Nature of shareholders</b>	<b>Percentage of shareholding (%)</b>	<b>Total number of shares held at the end of year (shares)</b>	<b>Number of shares held subject to lock-up (shares)</b>	<b>Number of pledged or frozen shares</b>
1. Zhongxingxin	State-owned shareholders	35.08	336,574,339	310,982,741	None
2. HKSCC Nominees Limited	Foreign shareholders	16.66	159,823,439	0	Unknown
3. China International Domestic Demand Dynamic Stock Fund	Others	1.57	15,091,674	0	Unknown
4. Hunan Nantian (Group) Co., Ltd	Others	1.19	11,431,810	0	Unknown
5. China International Fund Management Alpha Stock Fund	Others	1.13	10,879,556	0	Unknown
6. China Bonus Mixed Type Fund	Others	1.11	10,680,805	0	Unknown
7. Fortune SGAM Industrial Selected Stock Fund	Others	1.04	10,000,000	0	Unknown
8. Boshi Value Growth Fund	Others	1.04	9,999,422	0	Unknown
9. Everbright Pramerica Quantified Core Fund	Others	0.89	8,512,422	0	Unknown
10. E Fund Value Selection Stock Fund	Others	0.76	7,334,980	0	Unknown

<b>Shareholdings of top ten holders of shares not subject to lock-up</b>			
<b>Name of shareholders</b>		<b>Number of shares held not subject to lock-up</b>	<b>Class of shares</b>
1.	HKSCC Nominees Limited	159,823,439	H shares
2.	Zhongxingxin	25,591,598	A shares
3.	China International Domestic Demand Dynamic Stock Fund	15,091,674	A shares
4.	Hunan Nantian (Group) Co., Ltd	11,431,810	A shares
5.	China International Fund Management Alpha Stock Fund	10,879,556	A shares
6.	China Bonus Mixed Type Fund	10,680,805	A shares
7.	Fortune SGAM Industrial Selected Stock Fund	10,000,000	A shares
8.	Boshi Value Growth Fund	9,999,422	A shares
9.	Everbright Pramerica Quantified Core Fund	8,512,422	A shares
10.	E Fund Value Selection Stock Fund	7,334,980	A shares
Descriptions of any connected party relationships or concerted party relationships among the above shareholders		1.	Among the Company's top ten shareholders China International Domestic Demand Dynamic Stock Fund (3rd) and China International Fund Management Alpha Stock Fund (5th) are managed by the same fund manager, China International Fund Management Co., Ltd.
		2.	There were no connected party relationships or concerted party relationships between Zhongxingxin and other top ten shareholders and other top ten holders of shares not subject to lock-up.
		3.	Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and the top ten holders of shares that are not subject to lock-up.

	<b>Name of Shareholder</b>	<b>Agreed period of shareholding</b>
Agreed period of shareholding for strategic investors or legal persons participating in the placing of new shares	None	None

**2. Number of circulating shares not subject to lock-up held by original holders of non-circulating shares interested in 5% or above of the shares at the end of the reporting period**

<b>Name of shareholder</b>	<b>Circulating shares not subject to lock-up held on the date of listing (shares)</b>	<b>Increase/decrease during the year (shares)</b>	<b>Reasons for change</b>	<b>Circulating shares not subject to lock-up held at the end of the year (shares)</b>
Zhongxingxin	47,976,083	(22,384,485)	Reduction	25,591,598

### 3. Controlling shareholders of the Company

Name of controlling shareholders:	Zhongxingxin
Legal representative:	Xie Weiliang
Date of incorporation:	29 April 1993
Registered capital:	RMB100,000,000
Scope of business:	production of programmed switchboard cabinets, telephones and related components, electronic products; import and export operations; treatment of waste water, toxic fumes and noise and related technical services, research and technical development of environmental protection equipment; production of continuous monitoring smoke systems.

### 4. The shareholders (or de facto controller) of the Company's controlling shareholder

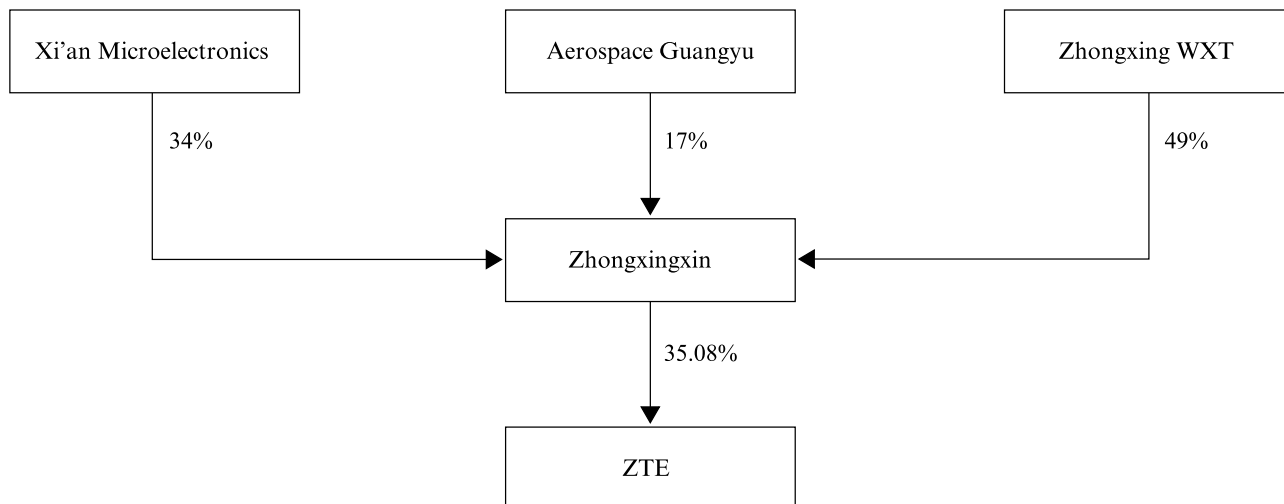
The controlling shareholder of the Company, Zhongxingxin was jointly formed by Xi'an Microelectronics, Shenzhen Aerospace Guangyu Industrial Group Company ("Aerospace Guangyu") and Zhongxing WXT, each holding a 34%, 17% and 49% stake in Zhongxingxin respectively. Zhongxingxin currently has 9 directors, of which 3 have been nominated by Xi'an Microelectronics, 2 by Aerospace Guangyu and 4 by Zhongxing WXT, representing 33.33%, 22.22% and 44.45% of the board of directors of Zhongxingxin respectively. Therefore, no shareholder of Zhongxingxin shall have the right to control the financial and operating decisions of the Company whether in terms of shareholding or corporate governance structure and no party has effective control over the Company. Details of these three shareholders are as follows:

Xi'an Microelectronics, a subsidiary of China Aerospace Times Electronics Corporation, is a large state-owned research institute, which was established in 1965 with a start-up capital of RMB198,530,000. The legal representative of the institute is Mr. Zhang Junchao. It is the only specialized research institute in China which integrates and complements the research, development and production of semiconductor integrated circuits, mixed integrated circuits and computers.

Aerospace Guangyu, a subsidiary of CASIC Shenzhen (Group) Company, Limited, is a wholly state-owned enterprise established on 20 March 1984. The legal representative is Mr. Xie Weiliang and the registered capital amounts to RMB17,950,000. The scope of business includes aerospace technology products, mechanical products, electrical appliance products, apparatuses and instruments; electronic products, plastic products, chemical products, hoisting and transportation products, hardware and furniture, construction materials, magnetic materials, powder metallurgy, Chinese-manufactured automobiles (except sedans), warehousing and import and export operations.

Zhongxing WXT is a private high-technology enterprise incorporated on 23 October 1992. Its legal representative is Mr. Hou Weigui and its registered capital amounts to RMB10,000,000. The scope of business includes the development and production of telecommunications and transmission equipment, associated equipment, computer and peripheral equipment.

The following diagram shows the shareholding and controlling relationships between the Company and its shareholders as at 31 December 2007:



## 5. Interests of substantial shareholders and other persons in shares or debentures

As at 31 December 2007, the following shareholders were interested in 5% or more in the issued share capital of the Company, as shown in the share register maintained by the Company in accordance with Section 336 of the Securities and Futures Ordinance:

Name	Number of shareholding	Approximate shareholding as a percentage (%) of:	
		Total share capital	The relevant class of shares
Zhongxingxin	336,574,339 A shares (L)	35.08	42.10
Zhongxing WXT	336,574,339 A shares (L)	35.08	42.10
Xian Microelectronics	336,574,339 A shares (L)	35.08	42.10
China Aerospace Times Electronics Corporation	336,574,339 A shares (L)	35.08	42.10
China Aerospace Science and Technology Corporation	336,574,339 A shares (L)	35.08	42.10
Fidelity International Limited	22,226,700 H shares (L)	2.32	13.88
Allianz SE	14,159,900 H shares (L)	1.48	8.84
Schroder Investment Management (Hong Kong) Limited	13,802,600 H shares (L)	1.44	8.62
Deutsche Bank Aktiengesellschaft	13,232,543 H shares (L)	1.38	8.26
	5,753,790 H shares (S)	0.60	3.59
Goldman Sachs (Asia) L L C	11,622,000 H shares (L)	1.21	7.82
Goldman Sachs (Cayman) Holding Company	11,622,000 H shares (L)	1.21	7.82
JPMorgan Chase & Co.	11,182,468 H shares (L)	1.17	6.98
	287,000 H shares (S)	0.03	0.18
	10,707,068 H shares (P)	1.12	6.69
Aranda Investments (Mauritius) Pte Ltd	11,141,800 H shares (L)	1.16	6.96
Halbis Capital Management (Hong Kong) Limited	11,060,200 H shares (L)	1.15	6.90
Massachusetts Financial Services Company ("MFS")	8,428,100 H shares (L)	0.88	5.26
Sun Life Financial, Inc.	8,428,100 H shares (L)	0.88	5.26

(L) long position; (S) short position; (P) lending pool

Save as disclosed above, as at 31 December 2007, so far as the Directors, Supervisors and senior management of the Company are aware, no person had an interest or short position in the shares and underlying shares of the Company that was required to be recorded in the register maintained pursuant to section 336 of the Securities and Futures Ordinance.

**6. Shareholding of the public shareholders**

On the basis of publicly available information known to the Board of Directors, as at 18 March 2008 the Company has sufficient public shareholding, in compliance with the minimum requirement of Hong Kong Stock Exchange Listing Rules.

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

## (1) BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### 1. Biography of Directors

**Mr. Hou Weigui**, 66, is the Chairman and a Non-executive Director of the Company. Mr. Hou is a senior engineer and one of the founders of Shenzhen Zhongxing Semiconductor Co., Ltd., and Zhongxingxin. He was the director and President of the Company responsible for its overall operational management since the Company was listed on the Shenzhen Stock Exchange in 1997 to February 2004. He has been Chairman of the Company since February 2004 and is concurrently the chairman of Zhongxing WXT. He has extensive experience in the telecommunications business and over 38 years of management experience and business operations.

**Mr. Wang Zongyin**, 63, is a Vice Chairman and a Non-executive Director of the Company. Mr. Wang graduated from the Faculty of Mechanical Engineering, Beijing Institute of Technology in 1968, specialising in rocket design. Mr. Wang served as the secretary to the Party Committee and deputy head of the China Academy of Launch Vehicle Technology from 2001 to February 2003, and as the general manager of China Aerospace Times Electronics Corporation from February 2003 to December 2007. He is currently the chairman of Long March Launch Vehicle Technology Co., Ltd. He has been Vice Chairman of the Company since February 2004. Mr. Wang is the Member of the 10th National Committee of the Chinese People's Political Consultative Conference and representative of the 12th People's Congress, Beijing Municipality. Mr. Wang has substantial experience in management and business operations.

**Mr. Xie Weiliang**, 52, is a Vice Chairman and a Non-executive Director of the Company. Mr. Xie graduated from the Faculty of Politics, National University of Defense Technology in 1982 and holds the title of professor. He served as the head of Nanjing Aerospace Management Cadres Institute from 2001 to 2003, and as the general manager of Aerospace Technology Shenzhen (Group) Co. Ltd and Shenzhen Aerospace Guangyu Industrial (Group) Co. Ltd since 2003. He has been Vice Chairman of the Company since February 2004 and is concurrently chairman of Zhongxingxin. Mr. Xie has substantial experience in management and business operations.

**Mr. Zhang Junchao**, 54, is a Non-executive Director of the Company. Mr. Zhang graduated from the Faculty of Electronic and Wireless Electricity Engineering, Xi'an Jiaotong University in 1977. He served as the deputy head of the Ninth Research Institute of CASC from 2000 to March 2003, and from March 2003 as the deputy secretary to the Party Committee of China Aerospace Times Electronics Corporation, head of its Shaanxi Management Division and head of Xi'an Microelectronics. Since March 2006, he has acted as the head of the centre of design and manufacture of integrated circuits of China Aerospace Times Electronics Corporation. He has been Non-executive Director of the Company since February 2004. Mr. Zhang has substantial experience in management and business operations.

**Mr. Li Juping**, 52, is a Non-executive Director of the Company. Mr. Li graduated from the Department of Technical Physics, Northwest Institute of Telecommunications Engineering (now known as Xidian University) in 1982, and holds the title of researcher. He served as the head of Xi'an Microelectronics and the general manager of Lishan Microelectronics Corporation from 2000 to 2003, and as the chief engineer of China Aerospace Times Electronics Corporation from 2003 to the present. He has been Non-executive Director of the Company since April 1999. Mr. Li has substantial experience in management and business operations.

**Mr. Dong Lianbo**, 51, is a Non-executive Director of the Company. Mr. Dong graduated from Northeastern University specialising in Business Administration in 2001, and holds the title of researcher and senior engineer. He served as the director and deputy general manager of Shenyang Aerospace Xinguang Group from 2001 to 2002, and as the deputy team head of the Shenzhen Business Integration Working Group of CASIC from 2002 to 2003, and as the deputy general manager of Aerospace Technology Shenzhen (Group) Co., Ltd. since 2003. He has been Non-executive Director of the Company since February 2004. Mr. Dong has substantial experience in management and business operations.

**Mr. Yin Yimin**, 44, is an Executive Director of the Company. Mr. Yin has been the President of the Company since 2004. He is responsible for the day-to-day management and operation of the Company. Mr. Yin is a senior engineer and graduated from the Nanjing University of Posts and Telecommunications (formerly "Nanjing Institute of Posts and Telecommunications") in 1988 with a Master of Science degree in engineering, specialising in telecommunications and electronic systems. Mr. Yin served as a Manager of the Research and Development Department of Shenzhen Zhongxing Semiconductor Co., Ltd. from 1991, and as deputy general manager of Zhongxingxin between 1993 and 1997. During the periods from 1997 to 1999 and from 1999 to 2004, he served as the Company's Vice-President and Senior Vice-President respectively and was in charge of different divisions such as research and development, marketing, sales and handsets operations. He has been an Executive Director of the Company since November 1997. He has many years of experience in the telecommunications industry, including over 17 years in managerial positions.

**Mr. Shi Lirong**, 44, is an Executive Director of the Company. Mr. Shi has been a Senior Vice President of the Company since 1999 and is responsible for the sales operations of the Company. He is a senior engineer graduated from Shanghai Jiaotong University in 1989 with a Master of Science degree in engineering, specialising in telecommunications and electronic engineering. Mr. Shi served as an engineer in Shenzhen Zhongxing Semiconductor Co., Ltd. from 1989 to 1993. From 1993 to 1997, he was the deputy general manager of Zhongxingxin, and from 1997 to 1999, the Vice-President of the Company responsible for marketing and sales functions of the Company. Since 1999 he has been the Senior Vice President of the Company in charge of marketing and sales. He has been an Executive Director of the Company since February 2001. He has many years of experience in the telecommunications industry, including over 17 years in managerial positions.

**Mr. He Shiyong**, 41, is an Executive Director of the Company. Mr. He has been a Senior Vice President of the Company since 1999 and is responsible for the handset business of the Company. Mr. He is a senior engineer graduated from Beijing University of Posts and Telecommunications in 1990 with a Master of Science degree in engineering, specialising in electromagnetic field and microwave technology. Mr. He joined Zhongxingxin in 1993 and previously was the chief engineer of the Nanjing Research Centre and deputy head of the Shanghai Research Centre. He was the Company's Vice President from 1998 to 1999 responsible for divisions such as research and development and marketing. Since 1999 he has been the Senior Vice President of the Company in charge of the Second Sales Division and the Handset Department. He has been an Executive Director of the Company since February 2001. He has many years of experience in the telecommunications industry, including over 15 years in managerial positions.

**Mr. Zhu Wuxiang**, 42, is an Independent Non-executive Director of the Company. Mr. Zhu is currently a professor and deputy chairman of the Department of Finance of the School of Economics and Management, Tsinghua University. Mr. Zhu graduated from Tsinghua University in 2002, specialising in economics and has obtained a doctorate degree. He has been studying and working at Tsinghua University since 1982. Mr. Zhu has been Independent Non-executive Director of the Company since July 2003. Mr. Zhu also holds concurrent independent non-executive directorships with Telling Telecommunications Holding Co., Ltd., Ningbo Xinhai Electric Co., Ltd. and Beijing Teamsun Technology Co., Ltd.

**Mr. Chen Shaohua**, 46, is an Independent Non-executive Director of the Company. Mr. Chen is currently a professor and the deputy head of the Accounting Development and Research Centre of Xiamen University. Mr. Chen graduated from Xiamen University in 1992, specialising in accounting, and has obtained a doctorate degree. Since 1983, he has been engaged in teaching and academic research at the Department of Accounting of Xiamen University. He has been Independent Non-Executive Director of the Company since July 2003.

**Mr. Qiao Wenjun**, 37, is an Independent Non-executive Director of the Company. Currently, he is a partner of Zhong Lun Law Firm and the head of its Shanghai office. Mr. Qiao graduated from Fudan University in 1999, specialising in company law, and has obtained a master's degree in law. He had worked at Shanghai People's Municipal Government Overseas Chinese Affairs Department, and from 1994 to 2001, he was a partner of Pu Dong Law Firm. From 2001 to present, he has been a partner of Zhong Lun Law Firm, the head of its Shanghai office and a lawyer. He has been Independent Non-executive Director of the Company since July 2003.



**Mr. Mi Zhengkun**, 62, is an Independent Non-executive Director of the Company. Mr. Mi is currently a professor of the Telecommunications Engineering Department of Nanjing University of Posts and Telecommunications (formerly “Nanjing Institute of Posts and Telecommunications”). Mr. Mi graduated from Nanjing University of Posts and Telecommunications in 1981, specialising in telecommunications, and has obtained a master’s degree. He is a member of the expert panel of ITU-T. He is involved in various scientific research and development projects at the State and provincial levels. Since 1982, Mr. Mi has been engaged in teaching and scientific research at Nanjing University of Posts and Telecommunications. He has been Independent Non-executive Director of the Company since February 2004.

**Mr. Li Jin**, 40, is an Independent Non-executive Director of the Company. Mr. Li graduated from Peking University in China in 1989, majoring in biochemistry and received his juris doctor degree from Columbia University Law School in the United States of America in 1994. From 1997 to 2002, he was a lawyer of Skadden, Arps, Slate, Meagher & Flom LLP, and from 2002 to November 2003 a partner at Linklaters, an international law firm. He has been Independent Non-executive Director of the Company since June 2004. Mr. Li is concurrently the independent director of Dragon Pharmaceutical Inc. (a Canadian company listed on NASDAQ).

## 2. Joint Company Secretaries

**Mr. Feng Jianxiong**, 34, the Secretary to the Board of Directors of the Company, is responsible for the Securities and Investor Relations department of the Company. Mr. Feng graduated from Tianjin University of Finance and Economics with a bachelor degree in economics specialising in international finance. Mr. Feng joined Zhongxingxin in July 1996. He has been the Secretary to the Board of Directors, and subsequently the heads of the Investment Department, the Securities and Finance Department and the Securities and Investor Relations Department of the Company since 2000. Mr. Feng has many years of experience in the telecommunications industry, including over 8 years in managerial positions.

**Mr. Ngai Wai Fung**, 46, the Joint Company Secretary of the Company. Mr. Ngai is a director and head of Listing Services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. He is currently vice president of The Hong Kong Institute of Chartered Secretaries and the chairman of the institute’s China Affairs Committee and Membership Committee. Mr. Ngai is a fellow of The Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom, as well as a member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants in the United Kingdom, the Hong Kong Institute of Directors and Hong Kong Securities Institute. Mr. Ngai holds a master’s degree in corporate finance from The Hong Kong Polytechnic University, a master’s degree in business administration from Andrews University of the United States and a LLB (Hons) degree from the University of Wolverhampton of the United Kingdom. He is a doctoral candidate in finance at Shanghai University of Finance and Economics.

## 3. Biography of Supervisors

**Mr. Zhang Taifeng**, 66, the Chairman of the supervisory Committee of the Company. Mr. Zhang graduated from Jilin University with a bachelor’s degree in semiconductor technology in 1966. He has previously held the positions of chief engineer and head of State-owned No. 691 Factory and head of X’ian Microelectronics. He joined Zhongxingxin in April 1993. He had been the Chairman of the Company from November 1997 to February 2004. Mr. Zhang has been the Chairman of the supervisory Committee of the Company since February 2004.

**Mr. Wang Wangxi**, 41, is a supervisor of the Company, and is Assistant to Senior Vice President and the Head of the Administration Division. He graduated from the Electronic Engineering faculty of Southeast University in 1991 with a master’s degree in electrophysics and devices. From June 1991 to October 1994, Mr. Wang worked as a teacher in the Electronic Engineering faculty of Southeastern University. Mr. Wang joined Zhongxingxin in October 1994. He was deputy general manager of International Business Division and the chief executive officer of Zhongxing Telecom Pakistan (Pvt) Ltd. and the deputy general manager of the Company’s First Sales Division.

**Ms. He Xuemei**, 37, is a supervisor of the Company and chairperson of the labor union of the Company. Ms. He obtained a bachelor's degree in mechanical engineering in 1991 and a second bachelor's degree in business administration in 1995, both from Chongqing University. Ms. He had worked at the Student Affairs Department of Chongqing University, She has worked with ZTE Kangxun and the Network Operations Division of the Company after joining the Company in January 1998.

**Mr. Qu Deqian**, 46, is a supervisor of the Company. Mr. Qu graduated from the Shaanxi Economics Institute with a Undergraduate Diploma in Statistics in June 1992 and further obtained the qualification of accountant in the PRC in October 1994. From 1997 to 2003, Mr. Qu was the Chief of the Accounting and Auditing Centre of the Company and Deputy Chief of the Financial Centre. He has been the deputy general manager of Zhongxing WXT since 2003.

**Ms. Wang Yan**, 43, is a supervisor of the Company. Ms. Wang graduated from the Department of Management and Industrial Accounting of Northeast Industrial Institute in July 1988 with a Bachelor's degree in engineering. Ms. Wang was qualified as an accountant in the PRC in December 1992 and further obtained the qualification of senior accountant in the PRC in September 1999. She joined Zhongxingxin in 1999 and had been manager of the financial department. She is currently the deputy general manager and chief accountant of Zhongxingxin.

#### 4. Biography of the Management

**Mr. Yin Yimin** is the President of the Company. Please refer to his biography under "Biography of Directors" in this section.

**Mr. Shi Lirong** is a Senior Vice President of the Company. Please refer to his biography under "Biography of Directors" in this section.

**Mr. He Shiyou** is a Senior Vice President of the Company. Please refer to his biography under "Biography of Directors" in this section.

**Mr. Wei Zaisheng**, 45, has been a Senior Vice President of the Company since 1999 and is responsible for the financial affairs of the Company. Mr. Wei graduated from the Peking University with a master's degree in business administration in 2004. He joined Shenzhen Zhongxing Semiconductor Co., Ltd. in 1988 and served as the chief financial officer and an assistant to the general manager of Zhongxingxin from 1993 to 1997. During the period from 1997 to 1999, he was the Vice President of the Company. Since 1999 he has been the Senior Vice President of the Company in charge of the financial affairs of the Company. Mr. Wei has many years of experience in the telecommunications industry, including over 19 years in managerial positions.

**Mr. Xie Daxiong**, 44, has been a Senior Vice President of the Company since 2004 and is responsible for the research and development of the Company. Mr. Xie is a senior engineer and holds the title of professor. He graduated from the Nanjing University of Science and Technology in 1986, specialising in applied mechanics, and has obtained a Master of Science degree in engineering. Mr. Xie joined Zhongxingxin in 1994 and had been the head of the Nanjing Research Institute of Zhongxingxin. From 1998 to 2004, Mr. Xie was the CDMA products manager, and subsequently the general manager of the Company's CDMA Division. Since 2004, he has been the Senior Vice President of the Company in charge of the Technology Centre of the Company. As a national-level candidate of the talent programme, Mr. Xie is entitled to special government grants. He was also the recipient of the first Shenzhen Mayor Award. Mr. Xie has many years of experience in the telecommunications industry, including over 11 years in managerial positions.

**Ms. Zhou Susu**, 53, has been a Senior Vice President of the Company since 1999 and is responsible for the human resources and administration of the Company. Ms. Zhou is a senior engineer graduated from the Hong Kong University of Science and Technology in 2004, with a EMBA degree. Ms. Zhou joined Shenzhen Zhongxing Semiconductor Co., Ltd. in 1990. From 1993 to 1997 she served as the manager of the research and development Division, regional general manager and deputy general manager of Zhongxingxin. During the period from 1997 to 1999 she was a Vice President of the Company. Since 1999 she has been the Senior Vice President of the Company in charge of the human resources centre, the President's Office, ZTE Institute, legal affairs and tender affairs. Ms. Zhou has many years of experience in software development and the telecommunications industry, including over 17 years in managerial positions.

**Mr. Tian Wenguo**, 39, has been a Senior Vice President of the Company since 2005 and is responsible for the marketing operations of the Company. Mr. Tian graduated from Harbin Institute of Technology in 1991 with a bachelor of science degree in engineering, specialising in electromagnetic surveys and devices. Mr. Tian joined Zhongxingxin in 1996, and from 1997 to 2002, he was the manager of the Company's Chongqing Sales Office and the general manager of the Southwest Region. From 2002 to 2005, he was the Vice President and general manager of Second Sales Division of the Company. Since 2005, he has been the Senior Vice President of the Company in charge of marketing and operations of the Company. Mr. Tian has many years of experience in the telecommunications industry, including over 10 years in managerial positions.

**Mr. Qiu Weizhao**, 44, has been a Senior Vice President of the Company since 2007 and was Vice President from 1998 to 2006. He is responsible for the logistics operations of the Company. Mr. Qiu is a senior engineer graduated from Xi'an University of Electronic Technology in 1988, specialising in telecommunications and electronic systems with a master of science degree in engineering. Mr. Qiu joined Changde Wired Communication (Group) Company in 1988 and had served as deputy general manager. He joined the Company in 1998 as Vice President and has been in charge of the Company's logistics and procurement operations since then. Mr. Qiu has many years of experience in the telecommunications industry, including over 19 years in managerial positions.

**Ms. Chen Jie**, 49, has been a Vice President of the Company since 2002 and is responsible for the wireline and business products under the marketing department. Ms. Chen graduated from the Nanjing University of Posts and Telecommunications (formerly "Nanjing Institute of Posts and Telecommunications") in 1989 specialising in telecommunications and from the New York University's Department of Computer Science in 1994 with a double master's degree. Ms. Chen holds the titles of senior researcher and senior engineer. From 1989 to 1992, Ms. Chen was a manager of the Development Division of Shenzhen Zhongxing Semiconductor Co., Ltd. From 1995 to 1998, she was the senior researcher and head of the Research Department of AT&T Bell Laboratory. From 1998 to the beginning of 2002, she served as the general manager of the Company's U.S. subsidiary. Since 2002, she has been the Vice President of the Company in charge of the Networking Operations Division. From 2007 onwards, she has been General Manager of the wireline and business products under the marketing department. Ms. Chen has many years of experience in the telecommunications industry, including over 12 years in managerial positions.

**Ms. Fang Rong**, 43, has been a Vice President since 1998 and is responsible for Fourth Sales Division of the sales operations of the Company. Ms. Fang is a senior engineer. She graduated from the Nanjing University of Posts and Telecommunications (formerly "Nanjing Institute of Posts and Telecommunications") in 1987 with a bachelor of science degree in engineering, specialising in telecommunications engineering. From 1987 to 1995, Ms. Fang was engaged in research and development work in the Wuhan Academy of Postal and Telecommunications Sciences of the Ministry of Posts and Telecommunications. From 1995 to 1997, she was responsible for the marketing operations of Zhongxingxin. Since 1998 she has been the Vice President of the Company in charge of the General Product Division and the Fourth Sales Division. Ms. Fang has many years of experience in the telecommunications industry, including over 12 years in managerial positions.

**Mr. Zhao Xianming**, 41, has been a Vice President of the Company since 2004 and is responsible for marketing operations. Mr. Zhao graduated from the Harbin Institute of Technology in 1997 specialising in telecommunications and electronic systems with a doctorate of science degree in engineering. From 1991 to 1998, Mr. Zhao served as a deputy director of the Communication Engineering Teaching and Research Office of Harbin Institute of Technology. He joined the Company in 1998 to engage in the research, development and management of the CDMA products. He had been the head of the Research & Development Group, project manager and general product manager from 1998 to 2003. Since 2004, he has been the Vice President of the Company in charge of the CDMA Division of the Company. Mr. Zhao has many years of experience in the telecommunications industry, including over 16 years in managerial positions.

**Mr. Ding Mingfeng**, 38, has been a Vice President of the Company since 1998 and is responsible for overseas telecommunications operations. Mr. Ding graduated from Harbin Institute of Technology in 1994 with a master of science degree in engineering, specialising in computer science. From 1994 to 1995 Mr. Ding carried out research and development work in Zhongxingxin. From 1995 to 1997 he served as deputy head of Zhongxingxin's Nanjing Research Institute. Since 1998, he has been the Vice President of the Company in charge of the Switch Products Division, the First Sales Division, the Technology Centre and the Quality Planning Centre. He has many years of experience in the telecommunications industry, including over 11 years in managerial positions.

**Mr. Pang Shengqing**, 39, has been a Vice President of the Company since 2006 and is responsible for the First Sales Division of the Company's sales operations. Mr. Pang is an engineer. He graduated from Huazhong University of Science and Technology with a doctorate of science degree in engineering in 1995, specialising in mechanical manufacturing. He was awarded the Guangdong Science and Technology Award in May 2002. Mr. Pang joined Zhongxingxin in 1995. From 1997 to 2000, Mr. Pang was involved in research and development of the Company's CDMA core technology research and hardware systems. Mr. Pang was deputy general manager of the CDMA Division and general manager of the First Sales Division from 2001 to 2005. Since 2006, he has been Vice President of the Company in charge of the First Sales Division. He has many years of experience in the telecommunications industry, including over 9 years in managerial positions.

**Mr. Fan Qingfeng**, 39, has been a Vice President of the Company since 2006, and is responsible for the Company's Beijing branch. Mr. Fan graduated from Liaoning Engineering Technology University in 1992 with a bachelor's degree, specialising in industrial electrical automation. He graduated from Tsinghua University in 2006 with a master's degree in business administration. He joined Zhongxingxin in 1996. From 1997 to 2005, Mr. Fan acted as the project manager of the Company's Zhengzhou office, the manager of Chongqing office, regional vice president of Eastern China region and manager of Ji'nan Office, deputy general manager of the Company's Second Sales Division and head of Beijing branch. Since 2006, he has been Vice President of the Company in charge of the Beijing Branch. He has many years of experience in the telecommunications industry, including over 8 years in managerial positions.

**Mr. Zeng Xuezhong**, 34, has been a Vice President of the Company since 2006 and is responsible for the Company's Third Sales Division of sales operations. Mr. Zeng graduated from Tsinghua University with a bachelor of science degree in engineering in modern applied science in 1996 and with a EMBA degree in 2007. Mr. Zeng joined Zhongxingxin in 1996. From 1997 to July 2006, Mr. Zeng was the Company's senior project manager, assistant to the regional general manager, manager of Guiyang branch and manager of Kunming branch, deputy general manager and general manager of the Second Sales Division and Vice President of the Company. Since August 2006, he has been Vice President of the Company in charge of the Third Sales Division. Mr. Zeng has many years of experience in the telecommunications industry, including over 8 years in managerial positions.

**Mr. Xu Huijun**, 34, has been a Vice President of the Company since 2004 and is responsible for the after-sales services of the sales operations of the Company. Mr. Xu graduated from Tsinghua University in 1998 with a master of science degree in engineering, specialising in electronic engineering. He joined the Company in 1998 and had served as a project manager of the General Products Division, the head of Beijing Research Centre and the general manager of the general products division from 1998 to 2003. Since 2004 he has been Vice President of the Company in charge of the General Products Division. Mr. Xu has many years of experience in the telecommunications industry, including over 9 years in managerial positions.

**Mr. Yu Yong**, 41, has been a Vice President of the Company since 2006 and is currently in charge of financing of the financial operations of the Company. Mr. Yu graduated from Nankai University in 1995 with a master's degree in business administration. Mr. Yu joined the Company in 1997 and was director of the Financial Management Centre and the Financial Centre from 1997 to 2005. Since 2006, he has been Vice President of the Company in charge of financing work of the financial operations of the Company. Mr. Yu has many years of experience in the telecommunications industry, including over 11 years in managerial positions.

**Mr. Ye Weimin**, 41, has been a Vice President of the Company since 2001 and is responsible for ZTE Kangxun of the Company's logistics operations. Mr. Ye graduated from Shanghai Jiaotong University in 1988 with a bachelor of science degree in engineering, specialising in computer science and engineering. He joined Zhongxingxin in 1994 and was previously involved in the engineering research and development of digital programme-control switches and mobile communication systems. From 1997 to 2001, he served as the chief officer of the Company's Central Laboratory, head of the quality control department of Mobile Operations Division and the Customer Services Department and deputy general manager of the Third Sales Division. Since 2001, he has been Vice President of the Company in charge of the Mobile Operations Division and the Fifth Sales Division. Mr. Ye has many years of experience in the telecommunications industry, including over 12 years in managerial positions.

**Mr. Zhong Hong**, 38, has been a Vice President of the Company since 2006 and is responsible for sales of corporate networks and network of government institutions, channels sales operations. Mr. Zhong graduated from Shanghai Jiaotong University with a master of science degree in engineering specialising in mechanical engineering in 1995. Mr. Zhong joined Zhongxingxin in 1995. From 1997 to 2005, Mr. Zhong was a director of Shanghai Research Institute and products general manager of the Network Business Division of the Company. Since 2006, he has been Vice President of the Company in charge of the Company's Data Business Division. He has many years of experience in the telecommunications industry, including over 7 years in managerial positions.

**Mr. Ni Qin**, 48, has been a Vice President of the Company since 1998 and is responsible for IT functions of research and development. Mr. Ni graduated from Shanghai School of Posts and Telecommunications in 1981, specialising in telecommunications. From 1981 to 1994, Mr. Ni carried out technological research and development work in Shanghai Postal and Telecommunication Research Institute No. 1. He served as head of Shanghai Research Institute of Zhongxingxin from 1994 to 1997. Since 1998 he has been Vice President of the Company in charge of the Access Product Division, the Handset Division and IT construction. Mr. Ni has many years of experience in the telecommunications industry, including over 13 years in managerial positions.

**Mr. Wu Zengqi**, 43, the General Manager of the Fifth Sales Division of the Company, is responsible for the Fifth Sales Division of the sales operations. Mr. Wu graduated from Fudan University with a Master's degree in economics in 1990, specialising in global economics. He joined the Company in 1999 and was the chief representative of the Libyan Office of the First Sales Division and the general manager of North Africa region of the Fifth Sales Division from 1999 to 2006. Mr. Wu has many years of experience in the telecommunications industry, including over 8 years in managerial positions.

**Mr. Feng Jianxiong** is the Secretary to the Board of Directors of the Company. Please refer to "Joint Company Secretaries" in this section.

## (2) CHANGES IN THE SHAREHOLDINGS AND ANNUAL REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Title	Gender	Age	Term of office	Number of A shares held at the beginning of the year (shares)	Reason of change	Number of A shares held at the end of the year (shares)	Total pre-tax remuneration received from the Company during the reporting period (RMB10,000)	Quota of Subject Shares granted during the reporting period (A shares)			Whether Market price of A shares at the end of the reporting period received from shareholder entities or other
									Quota of Subject Shares granted (shares)	Number of shares unlocked (shares)	Grant price (RMB)	
Hou Weigui	Chairman	Male	66	3/2007-3/2010	219,600	-	219,600	101.0	0	0	30.05	63.69 No
Wang Zongyin	Vice Chairman	Male	63	3/2007-3/2010	0	-	0	9.0	10,000	0	30.05	63.69 Yes
Xie Weiliang	Vice Chairman	Male	52	3/2007-3/2010	0	-	0	9.0	10,000	0	30.05	63.69 Yes
Zhang Junchao	Director	Male	54	3/2007-3/2010	0	-	0	9.0	10,000	0	30.05	63.69 Yes
Li Juping	Director	Male	52	3/2007-3/2010	0	-	0	9.0	10,000	0	30.05	63.69 Yes
Dong Lianbo	Director	Male	51	3/2007-3/2010	0	-	0	9.0	10,000	0	30.05	63.69 Yes
Yin Yimin	Director and President	Male	44	3/2007-3/2010	121,680	-	121,680	184.4	0	0	30.05	63.69 No
Shi Lirong	Director and Senior Vice President	Male	44	3/2007-3/2010	95,760	-	95,760	119.5	0	0	30.05	63.69 No
He Shiyou	Director and Senior Vice President	Male	41	3/2007-3/2010	91,007	-	91,007	137.6	0	0	30.05	63.69 No
Zhu Wuxiang	Independent Director	Male	42	3/2007-3/2010	0	-	0	9.0	0	0	30.05	63.69 No
Chen Shaohua	Independent Director	Male	46	3/2007-3/2010	0	-	0	9.0	0	0	30.05	63.69 No
Qiao Wenjun	Independent Director	Male	37	3/2007-3/2010	0	-	0	9.0	0	0	30.05	63.69 No
Mi Zhengkun	Independent Director	Male	62	3/2007-3/2010	0	-	0	9.0	0	0	30.05	63.69 No
Li Jin	Independent Director	Male	40	3/2007-3/2010	0	-	0	9.0	0	0	30.05	63.69 No
Zhang Taifeng	Chairman of Supervisory Committee	Male	66	3/2007-3/2010	121,680	-	121,680	100.7	0	0	30.05	63.69 No
Wang Wangxi	Supervisor	Male	41	3/2007-3/2010	0	-	0	54.3	0	0	30.05	63.69 No
He Xuemei	Supervisor	Female	37	3/2007-3/2010	0	-	0	33.7	0	0	30.05	63.69 No
Qu Deqian	Supervisor	Male	46	3/2007-3/2010	10,020	-	10,020	0	0	0	30.05	63.69 Yes
Wang Yan	Supervisor	Female	43	3/2007-3/2010	0	-	0	0	0	0	30.05	63.69 Yes
Wei Zaisheng	Senior Vice President and Chief Financial Officer	Male	45	3/2007-3/2010	95,760	-	95,760	106.3	0	0	30.05	63.69 No
Xie Daxiong	Senior Vice President	Male	44	3/2007-3/2010	44,839	-	44,839	129.7	100,000	0	30.05	63.69 No
Zhou Susu	Senior Vice President	Female	53	3/2007-3/2010	95,760	Note 1	95,760	97.9	0	0	30.05	63.69 No
Tian Wenguo	Senior Vice President	Male	39	3/2007-3/2010	24,300	Note 2	18,225	123.9	100,000	0	30.05	63.69 No
Qiu Weizhao	Senior Vice President	Male	44	3/2007-3/2010	0	-	0	118.8	100,000	0	30.05	63.69 No
Chen Jie	Vice President	Female	49	3/2007-3/2010	94,500	-	94,500	124.6	100,000	0	30.05	63.69 No
Fang Rong	Vice President	Female	43	3/2007-3/2010	41,385	-	41,385	106.7	100,000	0	30.05	63.69 No
Zhao Xianming	Vice President	Male	41	3/2007-3/2010	0	-	0	116.5	180,000	0	30.05	63.69 No
Ding Mingfeng	Vice President	Male	38	3/2007-3/2010	61,756	-	61,756	90.3	100,000	0	30.05	63.69 No
Pang Shengqing	Vice President	Male	39	3/2007-3/2010	0	-	0	85.0	150,000	0	30.05	63.69 No
Fan Qingfeng	Vice President	Male	39	3/2007-3/2010	0	-	0	153.0	150,000	0	30.05	63.69 No
Zeng Xuezhong	Vice President	Male	34	3/2007-3/2010	0	-	0	151.5	150,000	0	30.05	63.69 No
Xu Huijun	Vice President	Male	34	3/2007-3/2010	0	-	0	118.4	180,000	0	30.05	63.69 No
Yu Yong	Vice President	Male	41	3/2007-3/2010	0	-	0	64.9	150,000	0	30.05	63.69 No
Ye Weimin	Vice President	Male	41	3/2007-3/2010	33,804	-	33,804	100.4	100,000	0	30.05	63.69 No
Zhong Hong	Vice President	Male	38	3/2007-3/2010	0	-	0	56.7	150,000	0	30.05	63.69 No
Ni Qin	Vice President	Male	48	3/2007-3/2010	78,840	-	78,840	97.0	100,000	0	30.05	63.69 No
Wu Zengqi	Vice President	Male	43	3/2007-3/2010	0	-	0	95.9	150,000	0	30.05	63.69 No
Feng Jianxiang	Secretary to the Board	Male	34	3/2007-3/2010	0	-	0	50.8	100,000	0	30.05	63.69 No
<b>Total</b>					<b>1,230,691</b>		<b>1,224,616</b>	<b>2,809.5</b>	<b>2,210,000</b>	<b>0</b>		

Note 1: Ms. Zhou Susu sold and then purchased 10,000 A shares in the Company.

Note 2: Mr. Tian Wenguo disposed of 6,075 A shares in the Company.

Note 3: Mr. Wu Zengqi was granted 150,000 A shares as quota of Subject Shares prior to taking the office of Vice President.

Note 4: Directors' allowance for non-executive Directors and Independent Directors without other employment positions at the Company had been adjusted from RMB60,000 before tax per annum to RMB100,000 before tax per annum, with effect from April 2007.



**(3) INFORMATION CONCERNING DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT HOLDING POSITIONS IN SHAREHOLDERS OF THE COMPANY**

Name	Name of shareholder	Position in the shareholder	Term of office
Xie Weiliang	Zhongxingxin	Chairman	2007.4-2010.3
	CASIC Shenzhen (Group) Company Limited	Director and general manager	Since 2003
Zhang Junchao	Zhongxingxin	Vice chairman	2007.4-2010.3
	Lishan Microelectronics Corporation	General manager	Since 2003.10
Dong Lianbo	Zhongxingxin	Director	2007.4-2010.3
	CASIC Shenzhen (Group) Company Limited	Director and deputy general manager	Since 2003
Zhang Taifeng	Zhongxingxin	Director	2007.4-2010.3
Shi Lirong	Zhongxingxin	Director	2007.4-2010.3
Wei Zaisheng	Zhongxingxin	Director	2007.4-2010.3
Qu Deqian	Zhongxingxin	supervisor	2007.4-2010.3
Wang Yan	Zhongxingxin	Deputy general manager	2007.4-2010.3

**(4) INFORMATION CONCERNING DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT HOLDING POSITIONS IN ENTITIES OTHER THAN SHAREHOLDERS OF THE COMPANY**

Name	Name of shareholder	Position
Hou Weigui	Holds positions in 8 subsidiaries including Shenzhen ZTE Software Company Limited	Chairman
	Zhongxing WXT	Chairman
	Zhongxing Energy Company Limited	Chairman
Wang Zongyin	Long March Launch Vehicle Technology, Co., Ltd	Chairman
Xie Weiliang	Shenzhen Aerospace Guangyu Industrial (Group) Company	General manager
Zhang Junchao	Xi'an Microelectronics Technology Research Institute	Authorised representative
Li Juping	China Aerospace Times Electronics Corporation	Chief engineer
Dong Lianbo	Shenzhen Aerospace Guangyu Industrial (Group) Company	Deputy general manager
Zhu Wuxiang	Tsinghua University	Professor
	Telling Telecommunications Holding Co., Ltd.	Independent director
	Ningbo Xinhai Electric Co., Ltd.	Independent director
	Beijing Teamsun Technology Co., Ltd.	Independent director
Chen Shaohua	Xiamen University	Professor
Qiao Wenjun	Zhong Lun Law Firm	Partner/head of Shanghai Office
Mi Zhengkun	Nanjing University of Posts and Telecommunications	Professor
Li Jin	Dragon Pharmaceutical Inc.	Independent director
Zhang Taifeng	Holds positions in 2 subsidiaries including ZTE Kangxun	Chairman
Yin Yimin	Holds positions in 10 subsidiaries including ZTE Kangxun	Chairman/director
	Zhongxing WXT	Vice chairman
Shi Lirong	Holds positions in 11 subsidiaries including ZTE Kangxun	Chairman/director
	Zhongxing WXT	Director
	Zhongxing Energy Company Limited	Director

Name	Name of shareholder	Position
He Shiyou	Holds positions in 2 subsidiaries including 深圳市中興移動通信有限公司 Zhongxing WXT	Chairman/director Supervisor
Wei Zaisheng	Holds positions in 10 subsidiaries including ZTE Kangxun Zhongxing WXT 深圳創新科技投資集團有限公司 Zhongxing Energy Company Limited	Chairman/director Director Supervisor Director
Xie Daxiong	Holds positions in 6 subsidiaries including Shenzhen Zhongxing Wireless Communication Equipment Company Limited	Chairman/director
Zhou Susu	Holds positions in 11 subsidiaries including ZTE HK Zhongxing WXT	Chairman/director Director
Qiu Weizhao	Holds positions in 4 subsidiaries including ZTE HK	Director/general manager
Fang Rong	ZTE HK	Director
Chen Jie	Holds positions in 9 subsidiaries Nanjing Zhong Xing Software Development Technology Co., Ltd.	Chairman/director
Ding Mingfeng	Holds positions in 9 subsidiaries including ZTE HK	Chairman/director
Fan Qingfeng	深圳市中聯成電子發展有限公司	Director
Tian Wenguo	Holds positions in 2 subsidiaries including Beijing Zhongxing Intelligent Transportation Systems Ltd.	Chairman/director
Zhao Xianming	3 subsidiaries including ZTE Integration Telecom Ltd.	Chairman/director
Xu Huijun	3 subsidiaries including Wuxi Zhongxing Optoelectronics Technologies Company, Limited	Chairman/director
Yu Yong	Holds positions in 2 subsidiaries including Congo-Chine Telecom S.A.R.L. Shenzhen Zhongxing International Investment Company Limited Zhongxing Energy Company Limited	Director Chairman Director/general manager
Zeng Xuezhong	Holds positions in 3 subsidiaries including Anhui Wantong Posts and Telecommunications Company, Limited	Chairman/director
Wang Wangxi	深圳中軟海納技術有限公司	Chairman of supervisory committee
Qu Deqian	2 subsidiaries including Shenzhen Kangquan Electromechanical Company, Limited Zhongxing WXT	Director/supervisor Deputy general manager
Wang Yan	3 subsidiaries including Zhongxing Xinyu	Director/supervisor
Feng Jianxiong	2 subsidiaries including Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited	Supervisor

## **(5) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

### **1. Changes in Directors, supervisors and Senior Management during the reporting period**

At the second extraordinary general meeting for 2007 of the Company held on 30 March 2007, all Directors sitting on the Third Session of the Board of Directors were re-elected as Directors for the Fourth Session of the Board of Directors, who would serve for a term from 30 March 2007 to 29 March 2010.

At the first meeting of the Fourth Session of the Board of Directors held on 30 March 2007, Mr. Hou Weigui was elected Chairman of the Fourth Session of the Board of Directors and Mr. Wang Zongyin and Mr. Xie Weiliang were elected Vice Chairmen of the Fourth Session of the Board of Directors.

### **2. Changes in supervisors of the Company during the reporting period**

At the second extraordinary general meeting for 2007 of the Company held on 30 March 2007, Mr. Qu Deqian and Ms. Wang Yan, Shareholders' Representative Supervisors of the Third Session of the Supervisory Committee of the Company, were reelected as Shareholders' Representative Supervisors for the Fourth Session of the Supervisory Committee. Mr. Zhang Taifeng, Mr. Wang Wangxi and Ms. He Xuemei, Staff Representative Supervisors of the Third Session of the Supervisory Committee of the Company, were re-elected as Staff Representative Supervisors for the Fourth Session of the Supervisory Committee through democratic elections among staff representatives of the Company on 30 January 2007. Supervisors for the Fourth Session of the supervisory Committee would serve for a term from 30 March 2007 to 29 March 2010.

At the first meeting of the Fourth Session of the supervisory Committee of the Company held on 30 March 2007, Mr. Zhang Taifeng was elected Chairman of the Fourth Session of the Supervisory Committee.

### **3. Changes in senior management of the Company during the reporting period**

At the first meeting of the Fourth Session of the Board of Directors held on 30 March 2007, Mr. Yin Yimin was re-appointed President of the Company, Mr. Shi Lirong, Mr. He Shiyong, Mr. Wei Zaisheng (concurrently re-appointed as Chief Financial Officer of the Company), Mr. Xie Daxiong, Ms. Zhou Susu and Mr. Tian Wenguo were re-appointed Senior Vice Presidents of the Company, Mr. Qiu Weizhao was appointed Senior Vice President of the Company, Ms. Chen Jie, Ms. Fang Rong, Mr. Zhao Xianming, Mr. Ding Mingfeng, Mr. Pang Shengqing, Mr. Fan Qingfeng, Mr. Zeng Xuezhong, Mr. Xu Huijun, Mr. Yu Yong, Mr. Ye Weimin, Mr. Zhong Hong and Mr. Ni Qin were re-appointed Vice Presidents of the Company, Mr. Wu Zengqi was appointed Vice President of the Company and Mr. Feng Jianxiang was re-appointed Secretary to the Board of Directors of the Company.

## **(6) DECISION MAKING PROCESS AND CRITERIA FOR DECIDING REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

The Remuneration and Evaluation Committee makes recommendations on the allowances for Directors by reference to the performance of Directors as well as the levels offered by other listed companies in the industry. Such recommendations shall be confirmed upon consideration and approval both by the Board of Directors and the general meetings of shareholders.

The Supervisory Committee makes recommendations on the allowances for Supervisors by reference to work of the Supervisors as well as the levels offered by other listed companies in the industry. Such recommendations shall be confirmed upon consideration and approval at the general meetings of shareholders.

The Remuneration and Evaluation Committee conducts appraisals on the performance of the senior management annually, and determines their remuneration according to the appraisal results.

Remuneration for the Directors, Supervisors and senior management of the Company are determined and payable in accordance with the aforesaid provisions and procedures.

**(7) HEADCOUNT AND CLASSIFICATION OF GROUP EMPLOYEES**

As at the end of the year, the Group had 48,261 employees, with an average age of 28. There were 20 retired employees.

## 1. Classification by specialisation as follows:

<b>Specialisation</b>	<b>Number of employees</b>	<b>Approximate percentage of total number of employees (%)</b>
R&D	16,940	35.1
Marketing and sales	7,706	16.0
Customer service	9,170	19.0
Manufacturing	9,314	19.3
Administration	5,131	10.6
<b>Total</b>	<b>48,261</b>	<b>100</b>

## 2. Classification by academic qualifications:

<b>Academic qualifications</b>	<b>Number of employees</b>	<b>Approximate percentage of total number of employees (%)</b>
Doctorate degree	401	0.8
Master's degree	10,762	22.3
Bachelor's degree	22,716	47.1
Others	14,382	29.8
<b>Total</b>	<b>48,261</b>	<b>100</b>

# CORPORATE GOVERNANCE STRUCTURE

The Company has prepared the “Corporate Governance Work Report” and the “Corporate Governance Report” in accordance with different requirements in form and content of PRC securities regulatory authorities and the Listing Rule of Hong Kong, respectively. To avoid undue repetitions and to keep the presentation lucid, a cross-referencing approach has been adopted.

## **PART I: CORPORATE GOVERNANCE WORK REPORT PREPARED IN ACCORDANCE WITH PRC SECURITIES REGULATORY REQUIREMENTS**

### **I. Status of corporate governance**

**Shareholders and general meetings:** The Company has established a corporate governance structure to ensure that all shareholders can fully exercise their rights and enjoy equal status, in particular for minority shareholders. Sufficient time should be provided at general meetings of shareholders, which are to be convened legally and validly, for the discussion of each proposal, to provide a good opportunity for communications between the Board and the shareholders. In addition, shareholders may contact the Company through its shareholder hotline during normal working hours or through its designated e-mail address for any enquiries.

**Controlling shareholder and the listed company:** the Company’s controlling shareholder is Zhongxingxin. The controlling shareholder exercises its rights as an investor in strict compliance with the law, without adversely affecting the lawful rights and interests of the Company and other shareholders. Candidates for election as Directors and Supervisors are nominated in strict compliance with laws and regulations and the terms and procedures as set out in the Articles. The staffing, assets, financial affairs, organisation and business of the controlling shareholder are independent to those of the listed company, with the controlling shareholder and listed company each carrying out independent auditing and assuming its own responsibilities and risks. The controlling shareholder has not directly or indirectly interfered with the decision-making and business activities of the Company beyond the general meeting.

**Directors and the Board:** the Company appoints directors in strict compliance with the procedures set out its Articles, ensuring that the directors are appointed in an open, fair, just and independent manner. In order to fully reflect the opinions of minority shareholders, a cumulative voting scheme is adopted for the appointment of directors. The Board of Directors has a reasonable professional structure, acting in the best interests of the Company and in good faith. The Company has formulated a set of rules of procedure for Board of Directors meetings, and board meetings are convened and held in strict compliance with the Articles and Rules of Procedure of the Board of Directors Meetings. To optimise the corporate governance structure, three specialist committees – the Nomination Committee, Audit Committee and Remuneration and Evaluation Committee – have been established by the Board of Directors in accordance with the Governance Standards for Listed Companies. The majority of members and the convenors in each of these committees are Independent Directors, providing scientific and professional opinions for reference by the Board of Directors in its decision-making.

**Supervisors and the Supervisory Committee:** The Supervisors possess professional knowledge and work experience in legal, accounting and other areas and are elected by way of cumulative voting. They monitor the financial affairs and supervise the lawful and regulatory performance of duties by the Company’s Directors, the President and other members of the senior management, and safeguard the legal rights and interests of the Company and shareholders. The Company has formulated rules of procedure for the Supervisory Committee meetings. Meetings of the Supervisory Committee are convened and held in strict compliance with the Articles and the Rules of Procedure for Supervisory Committee Meetings.

**Performance appraisal and incentive mechanism:** During the year, the Remuneration and Evaluation Committee of the Board of Directors linked the salaries of the senior management with the results of the Company and personal performance in accordance with the Scheme for the Administration of Senior Management’s Remuneration and Performance. Senior management personnel are recruited and appointed in strict compliance with relevant rules, regulations and the Articles. In order to establish a long-term incentive mechanism closely linked with the Company’s business performance and long-term strategy, so as to help optimise the overall remuneration structure and create a competitive advantage in human resources that will contribute to the long-term, sustainable growth of



the Company's operation, the Remuneration and Evaluation Committee of the Board of Directors of the Company has formulated the Phase I Share Incentive Scheme of the Company, which has come into effect upon approval by the general meeting of the Company.

Stakeholders: the Company respects the legal rights and interests of banks and other stakeholders such as creditors, employees, consumers, suppliers, and the community, and works actively with these stakeholders to promote the sustainable and healthy development of the Company.

Information disclosure and transparency: the Secretary to the Board of Directors and dedicated officers are responsible for handling information disclosure, arranging receptions of visiting shareholders and answering enquiries on behalf of the Company. Relevant information is disclosed in strict compliance with Rules on Fair Information Disclosure by Companies Listed on the Shenzhen Stock Exchange and the Articles in a true, accurate, complete and timely manner, and ensures that all shareholders have equal access to information.

In view of the above, the Company's status of corporate governance was in compliance with relevant requirements of the CSRC. In 2007, there were no irregularities in the corporate governance of the Company, such as the provision of information not otherwise available to the public to the majority shareholder or de facto controller.

## II. Corporate governance during the reporting period

During the reporting period, the Group started a self-inspection process on corporate governance in April 2007 in accordance with CSRC requirements on enhancing corporate governance of listed companies. Upon diligent self-inspection, it was deemed necessary to formulate overall administrative rules in respect of significant internal matters in accordance with relevant regulations. Accordingly, the Company had conducted rectifications in compliance with relevant requirements, and had formulated the "Administrative Rules of the Company on Information Disclosure", "Internal Control System of the Company", "Administrative Rules of the Company on Reception and Promotion", "Company System on Independent Directorship", "Administrative Rules of the Company on Issue Proceeds (Revised Version 2007)" and "Implementation Rules for the Dealings in Company Shares by Directors, Supervisors, Senior Management and Their Related Parties". These rules and regulations were considered, approved and announced at the fifth meeting of the Fourth Session of the Board of Directors of the Company held on 25 June 2007. The "Company System on Independent Directorship" was considered and approved at the third extraordinary general meeting of the Company for 2007 convened on 16 October 2007.

The Company published its self-inspection report on corporate governance on 11 July 2007. During the public consultation period, comments from public investors were received through telephone, mails and network forums. An online symposium on corporate governance was held on 16 July 2007.

On 11 September 2007, an on-site inspection of the Company on corporate governance was conducted by the CSRC Shenzhen Bureau ("Shenzhen CSRC"). Subsequently, the "Opinion on Corporate Governance of ZTE Corporation (Shen Zheng Ju Gong Si Zi [2007] No. 70)" was issued by Shenzhen CSRC, stating that the Company had placed a strong emphasis on corporate governance projects and had completed the self-inspection and public consultation processes on corporate governance in diligent fulfillment of the regulatory requirements of the CSRC and Shenzhen CSRC. It also called for the Company to further improve corporate governance and regulatory standards based on findings of the self-inspection and public consultation processes.

## III. Performance of duties by Independent Non-executive Directors

During the year, the Independent Directors' function in perfecting the corporate governance structure of the Company and protecting the interests of minority shareholders was particularly evident. During the year, the Independent Directors of the Company raised no objections on the resolutions passed by the Board of Directors meetings and other matters of the Company. In relation to important matters for which they were required to give independent opinions (including connected transactions, third-party guarantees, the appointment of Directors and senior management and the Share Incentive Scheme), the Independent Directors have seriously considered the matters and have issued written independent opinions. The Independent Directors provided valuable and

professional recommendations on major decisions by the Company, improving the rationality and objectiveness of the Company's decisions. Attendance of Independent Directors of the Company at Board of Directors meetings during 2007 was as follows:

<b>Name of Independent Directors</b>	<b>Number of Board meetings requiring attendance</b>	<b>Attendance in person</b>	<b>Attendance by proxy</b>	<b>Absence</b>
Zhu Wuxiang	13	11	2	0
Chen Shaohua	13	13	0	0
Qiao Wenjun	13	9	4	0
Mi Zhengkun	13	13	0	0
Li Jin	13	12	1	0

#### **IV. "Five Separations"**

The Company is independent of its controlling shareholder Zhongxingxin in respect of the staff, assets, finance, organisation and business. Each of the Company and Zhongxingxin is audited independently and assumes its own responsibilities and risks.

With respect to staffing, the Company is fully independent in matters including the management of labour, human resources and salaries. Members of the senior management receive their remuneration from the Company and do not receive any remuneration from the controlling shareholder or take up other major positions other than as directors.

With respect to assets, the Company's assets are fully independent and the Company has clear ownership of its assets. The Company has an independent production system, a supplementary production system and associated facilities. Intangible assets such as industrial property rights, trademarks, and other non-patentable technologies are owned by the Company. The Company's procurement and sales systems are independently owned by the Company.

With respect to finance, the Company has an independent financial department. It has established an independent accounting and auditing system and a financial management system, and maintains an independent bank account.

With respect to business, the Company's business is fully independent from the controlling shareholder. Neither the controlling shareholder nor its subsidiaries are engaged in any business identical or similar to that of the Company.

With respect to organisation, the Board of Directors, the Supervisory Committee and other internal organisations of the Company operate in complete independence from the controlling shareholder. There are no subordinate relationships between the controlling shareholder (and its functional departments) and the Company (and its functional departments).

#### **V. Establishment and Implementation of the Appraisal and Incentive Mechanism for Senior Management of the Company**

The Company has established a performance appraisal system for senior management and an incentive mechanism linking remuneration to the Company's results and the individual staff member's performance. The Remuneration and Evaluation Committee is mainly responsible for formulating and examining proposals for the management

of remuneration and performance of the Directors and senior management of the Company, conducting annual performance appraisals for the senior management of the Company and determining the remuneration of the senior management based on the results of the appraisal.

## **VI. Establishment and Improvement and Self-Assessment of the Company's Internal Control System**

### **(I) Overview**

#### *1. Development of the Internal Control System*

Over the years of its operation, the Company has developed a comprehensive corporate governance structure and a management supervision regime.

The Company formulated and published its "Internal Control System" in 2007 in accordance with the internal control requirements of the CSRC, Shenzhen Stock Exchange and the Hong Kong Stock Exchange and provisions of relevant laws and regulations, the Articles and pertinent rules of professional system risk management and control setup, taking into account the industry and business characteristics of the Company. The internal control regime covers the areas of internal control organisation protection, internal control awareness, internal control objectives, process control and auditing improvements. Corresponding internal control standards, structures, procedures and measures in response to significant risks have also been developed.

The Company has developed a corresponding control regime and mechanism for each of the following five aspects: namely the environment for control, risk assessment, business controls, information and communications and supervision. With a strong emphasis on enforcing internal control in operations, the management of the Company was able to rectify and improve internal control deficiencies identified in third party consultancy, business departments, internal audits and other areas in a timely manner.

The Company has set up an Audit Department which is independent from other business departments and reports directly to the Audit Committee of the Board of Directors of the Company. The Audit Department is responsible for organising audit work in respect of all functional departments of the Company, evaluating and assessing the existing business risks of the Company and the effectiveness of its internal control regime and internal control operations, the reliability of financial and management information and business operations of various departments and supervising the Company's compliance with its code of conduct and business practices. The Audit Department reports to the Auditing Committee of the Board of Directors and the Supervisory Committee on a regular basis. There are 4 divisions under the Audit Department, which are responsible for the audit work of the major operational segments of domestic sales, logistics, international businesses, and financial operations and subsidiaries, respectively.

#### *2. Operation of the General Meeting, Board of Directors and Supervisory Committee*

Since its listing in the PRC in November 1997, the Company has always regarded ongoing improvement of its corporate governance structure as a priority matter. Our corporate governance structure is underpinned by mutual supervision among the General Meeting, Board of Directors, Supervisory Committee and Management, each having distinctive functions to be performed in a regulated manner. In compliance with the new Company Law promulgated on 1 January 2006, the Company has fully revised the Articles of Association of ZTE Corporation (the "Articles") to further define the responsibilities of the General Meeting, Board of Directors, Supervisory Committee and Management, providing reasonable assurance in terms of corporate structure for the realization of the Company's internal control objectives. For details of the delegation and duties of the Company's General Meeting, Board of Directors, Supervisory Committee and Management and their respective operations, please refer to the section headed "II. Board of Directors" in "PART II: CORPORATE GOVERNANCE REPORT".

3. *Defined objectives, duties and scope of authority of various departments and job positions of the Company and establishment of relevant mandates, checks and the tier-based accountability system*

(1) *Defined objectives, duties and scope of authority of the Company's regimes and job positions*

The Company has established a business management structure comprising the market development, research and development ("R&D"), logistics, sales, personnel management and financial regimes based on the needs of modern enterprise management, the principle of market-driven R&D and sales as well as internal control requirements, with a view to meeting customer demands and maintaining clear attribution of responsibilities for economic results. Objectives, duties and scope of authority of job positions in the departments and units under these regimes have been clearly defined through the public announcement of duties concerned, formulation of business processes and implementation of complementary rules.

(2) *Relevant mandates, checks and the tier-based accountability system*

The Company has formulated the Internal Control System and Internal Audit System, while each regime has formulated its own accountability and management rules relating to quality issues. The scope and target of as well as implementation procedures for each of the corporate, regime and research institute levels are variously provided for in these accountability and management rules.

4. *Risk assessment*

The Company's objectives in operations, compliance and asset security and integrity are defined in accordance with its strategic objectives. On the basis of these defined objectives, the Company's overall risk-bearing ability and the acceptable risk level for each specific business segment are being determined in a reasonable manner. Backed by articulate research and scientific analysis, the Company is able to accurately identify inherent and external risk factors that might prevent the Company from achieving its internal control objectives.

Risk-counteracting strategies are determined on the basis of risk analyses, taking into account the causes of risks, the Company's overall risk-bearing ability and the acceptable risk level for each specific business segment.

(II) *Key control activities*

1. *Control of accounting system*

The accounting system, financial management system, operating procedures of accounting work and accounting staff manual of the Company has been formulated by its finance department in accordance with laws and regulations such as the Accounting Law, Enterprise Accounting Standards, Internal Accounting Control Regulations, General Rules for Financial Operations of Enterprises and Regulations for Foundational Accounting Work. A stringent accounting control system has been established to provide for specific risk control measures. Specific accounting functions are delegated to different job positions in the accounting department. No single persons are concurrently holding positions that are subject to mutual supervision.

2. *Management and control of majority-owned subsidiaries*

Please refer to Note V to the financial statements prepared in accordance with PRC GAAP for details of the control structure and shareholding percentage of the Company's majority-owned subsidiaries.

The Company has established a structure for the control of majority-owned subsidiaries in accordance with the law. The structure covers management issues relating to subsidiaries, such as application for incorporation, assessment, preparation for incorporation, daily management and divestiture by shareholders. Stringent provisions have been laid down in respect of the Articles, significant businesses, operation of the three institutions and the election of Directors, Supervisors, managers and financial officers of majority-owned subsidiaries.

The Company has also established control policies and procedures to place the control functions of majority-owned subsidiaries in respect of connected transactions, third-party guarantees, the use of issue proceeds and significant investments under the common regulation and management of the Company's control system. Management requirements, processes and delegations for majority-owned subsidiaries are clearly defined in the relevant systems of the Company. No irregularities as a result of uncontrolled activities have been recorded.

### *3. Management and control of connected transactions*

The respective limits for the authority of the General Meeting and the Board of Directors of the Company to approve connected transactions, procedures for the consideration and approval of connected transactions and requirements for abstention from voting have been clearly defined and laid down in the Articles, Rules of Procedure for the General Meeting and Rules of Procedure for the Board of Directors in accordance with relevant laws and regulations and provisions of the Listing Rules of the PRC and Hong Kong.

The Company has formulated the Administrative Rules Governing Connected Transactions, providing for prior examination and approval, ongoing monitoring and timely disclosure in accordance with relevant provisions in respect of connected transactions of the Company.

For an overview of the Company's connected transactions in 2007, please refer to Section XII headed "Material Matters".

### *4. Management and control of third-party guarantees*

The respective limits for the authority of the General Meeting and the Board of Directors of the Company to approve third-party guarantees and procedures for consideration and approval have been clearly defined and laid down in the Articles, Rules of Procedure for the General Meeting and Rules of Procedure for the Board of Directors. The Rules Governing Third-party Guarantees have also been formulated to regulate the Company's activities in third-party guarantees. Internal control of the Company's third-party guarantees is based on the principles of legal compliance, prudence, mutual benefit and security and stringent control of risks involved in such guarantees is being exercised.

For an overview of the Company's third-party guarantees in 2007, please refer to Section XII headed "Material Matters".

### *5. Management and control of the use of issue proceeds*

The Rules Governing Issue Proceeds have been formulated to regulate matters such as deposit, approval, application, change, supervision and accountability relating to issue proceeds. Internal control of the Company's use of issue proceeds is based on the principles of legal compliance, security, effectiveness and transparency with emphasis on commitments and efficiency.

For details of the Company's use of issue proceeds in 2007, please refer to Section IX headed "Report of the Board of Directors".

### *6. Management and control of significant investments*

The respective limits for the authority of the General Meeting and the Board of Directors to approve significant investments have been defined in the Articles and the procedures for consideration and approval have also been laid down. Internal control of the Company's significant investments is based on the principles of legal compliance, prudence, security and effectiveness. Emphasis is being put on investment risk control and investment efficiency.

For details of the Company's significant investments in 2007, please refer to Section XII headed "Material Matters".



## *7. Management and control of information disclosure*

Provisions on information disclosure of the Company have been set out in a dedicated chapter of its Articles to ensure timely and effective communication of information as well as effective control of the process of disclosure. To ensure the truthfulness, accuracy and completeness of information disclosure, the Company has also formulated the Rules Governing the Disclosure of Company Information to further define the duties of relevant internal staff in information disclosure and their obligations to observe confidentiality.

### *(III) Self-inspection and overall assessment of the Company's internal control*

The Audit Department of the Company has conducted inspection and testing of the Company's internal control in 2007 in accordance with the internal control requirements for listed companies laid down by securities regulatory authorities in Shenzhen and Hong Kong, taking into account the business characteristics of the Company. The Audit Department is of the view that: there was a clear definition of duties and delegations among the general meeting, Board of Directors and Supervisory Committee of the Company and the Board of Directors and the management were independent from each other; the management team was stable with a strong emphasis on internal control, and the roles and duties for each department of the Company were specific and clearly defined. The Company had established a reasonable internal control system covering all material aspects and had soundly and persistently implemented such system. The Company's internal control system had been reasonably designed and effectively implemented to provide comprehensive regulation and the internal control system had been operating normally as a whole.

The Company will continue to improve and complement its internal control system to cater to any needs arising from business development and possible changes in internal organisation. With enhanced operability, the Company's internal control regime will play a more significant role in its daily operation and management to facilitate prudent and sustainable development.

### *(IV) Opinion of the Supervisors of the Company on the Self-Assessment of Internal Control*

1. The Company has established a proper internal control system to ensure smooth business operation and risk control in accordance with the Company Law, the Securities Law, relevant provisions of the regulatory authorities and other relevant laws and regulations of the State, taking into account industry-specific factors as well as the mode of operation, asset structure and other characteristics of the Company;
2. The Audit Department of the Company has performed testing and inspection on the effectiveness of the Company's internal control system and confirms that the self-assessment of the Company's internal control has presented the implementation and results of the Company's internal control system in a truthful, objective and complete manner in compliance with requirements laid down in the Notice on Proper Compilation of 2007 Annual Reports of Listed Companies" issued by the Shenzhen Stock Exchange.

### *(V) Opinion of the Independent Directors of the Company on the Self-Assessment of Internal Control*

The internal control systems of the Company are in compliance with relevant laws and regulations and requirements of regulatory authorities of the State. During the reporting period, the Company further improved its internal control systems by formulating or amending a series of systems including the "Internal Control System of the Company", "Information Disclosure System of the Company" and "Administrative Rules of the Company on Issue Proceeds" to enhance control over various business processes and effectively prevent any business risks. The Company also enhanced control over key areas, including majority-owned subsidiaries, connected transactions, third-party guarantees, use of issue proceeds, significant investments and information disclosures, in accordance with its rules and regulations to ensure smooth business operation and management as well as sound and effective implementation of the systems. In view of the above, we are of the view that the self-assessment of the Company's internal control duly reflects the status of the Company's internal control.

## **PART II: CORPORATE GOVERNANCE REPORT PREPARED IN ACCORDANCE WITH THE REQUIREMENTS OF THE LISTING RULES OF THE STOCK EXCHANGE OF HONG KONG**

The Group is dedicated to improving its corporate governance standards and strives to increase its enterprise value by adopting stringent corporate governance practices, with a view to ensuring sustainable development and maximising value for its shareholders in the long term.

The Group had fully complied with all the principles and code provisions of the Code on Corporate Governance Practices set out as Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended 31 December 2007.

### **I. Shareholders and Investors' Relationship**

Details of the shareholding structure of the Company are set out in the section headed "Changes in Share Capital and Information of Shareholders" of this annual report.

The Company has always maintained effective communications with its shareholders by reporting the Group's results and operations to Shareholders through numerous official channels, such as disclosures in annual reports, interim reports and quarterly reports. Shareholders may also express their views or exercise their rights through communication channels set up by the Group, such as the investors' hotline and e-mail contacts. The Group's website is updated regularly to provide investors and the public with timely information of the Group's latest developments.

Details of the Company's reception of investors during 2007 are set out in Part XII (12) of this report headed "Reception of Investors and Analysts, Communications and Press Interviews".

The Company regards the convening of its annual general meeting as one of the most important events for the Company. All Directors and members of the senior management will attend the meeting on a best effort basis and engage in direct dialogue with the shareholders who will be given time to raise questions.

### **II. Board of Directors**

Members of the Board of Directors seek to act in the best interests of the Company, providing leadership and supervision over the Group and assuming joint and individual responsibility to all shareholders of the Company in respect of the management, control and operations of the Company.

#### **(I) Functions of the Board**

The Board of Directors is responsible for convening general meetings, reporting its work to the general meeting, implementing resolutions of the general meeting in a timely manner, monitoring the development of the overall operational strategy of the Company, deciding on the operational direction and investment plans of the Company, as well as supervising and guiding the management of the Company. The Board of Directors should also monitor the business and financial performance and formulate the annual financial budgets and final accounts of the Company.

The Directors confirm that it is their responsibility to prepare financial statements in respect of each financial year to give a true and fair report on the Group's conditions, as well as the results and cash flow accounts for the relevant periods. The Directors have consistently applied appropriate accounting policies and complied with all applicable accounting standards in preparing the financial statements for the year ended 31 December 2007. After due enquiries, the Directors are of the opinion that the Group has sufficient resources to carry on operations in the foreseeable future, and as a result it is appropriate for the Group to prepare its financial statements on an ongoing concern basis.

**(II) Composition of the Board**

The Board of the Company comprises 14 Directors, including 1 Chairman and 2 Vice Chairmen. Save for the Chief Executive Officer and 2 Executive Directors, all Directors are Non-executive Directors independent of the management, including 5 Independent Non-executive Directors who have substantial experience and possess academic and professional qualifications in the telecommunications, financial, legal and banking sectors and who are able to exercise influence in a proactive manner, and 6 Non-executive Directors who have extensive business and management experience. Their presence enables stringent review and control of the management procedures and ensures that the interests of shareholders as a whole, including minority shareholders, are safeguarded. The profile and terms of office of the Directors are set out under Part VI of this annual report headed "Directors, Supervisors, Senior Management and Staff".

The Company confirms that it has received written confirmations of independence from all the Independent Directors regarding their independence in accordance with Rule 3.13 of the Listing Rules. The Company is of the opinion that all such Directors are independent persons.

**(III) Appointment and Removal of Directors**

Each Director is appointed for a term of 3 years, which may be extended upon expiry. The term of office of each Independent Non-executive Director must not be longer than 6 years. The appointment and removal of Directors is subject to the approval of the general meeting of the Company. Each Director has entered into a Director's Service Contract with the Company for a term of 3 years. Details of the re-election of the Fourth Session of the Board of Directors of the Company are set out under Part VI (5) of this annual report headed "Changes in Directors, Supervisors and Senior Management".

**(IV) Board Meetings**

- The Articles requires that the Board of Directors convene at least 4 meetings a year. In 2007, the Board of Directors of the Company convened 13 working meetings in 2007, the details of which are set out under Part IX (15) headed "Daily Work of the Board of Directors" of this annual report. Attendance of Directors at the working meetings of the Board of Directors in 2007 was set out in the following table:

<b>Directors</b>	<b>Attendance in person</b>	<b>Attendance by proxy</b>
Hou Weigui	13/13	—
Wang Zongyin	9/13	4/13
Xie Weiliang	12/13	1/13
Zhang Junchao	7/13	6/13
Li Juping	13/13	—
Dong Lianbo	13/13	—
Yin Yimin	13/13	—
Shi Lirong	11/13	2/13
He Shiyong	12/13	1/13
Zhu Wuxiang	11/13	2/13
Chen Shaohua	13/13	—
Qiao Wenjun	9/13	4/13
Mi Zhengkun	13/13	—
Li Jin	12/13	1/13

2. As stipulated by the Articles, all Directors should be given 14 days' notice prior to the commencement of a regular Board of Directors meeting and 3 days' notice prior to the commencement of an interim Board of Directors meeting. The secretary to the Board of Directors should provide details of a regular Board of Directors meeting (including information in relation to each of the specialist Board committees) not later than 3 days prior to the commencement of the meeting to ensure all Directors are briefed on matters to be considered in the meeting in advance.

As for interim Board of Directors meetings which are convened by means of telephone or video conference at the request of the Company's management, information about the meeting would be provided simultaneously to all Directors via email and facsimile and sufficient time would be given to the Directors to consider the matters. The secretary to the Board of Directors would respond to any questions raised by the Directors and take appropriate action in a timely manner to assist Directors to ensure that the procedures of the Board of Directors is in compliance with the applicable regulations, such as the Company Law of the People's Republic of China, the Articles and the Hong Kong Stock Exchange Listing Rules.

3. Minutes of each Board of Directors meeting should be signed by the attending Directors and person taking the minutes, and be kept for a term of 10 years, during which the minutes are available for Directors' inspection from time to time upon their request.
4. Where any matters (including connected transactions) to be considered by the Board of Directors are deemed to involve a material conflict of interest, any Directors who are by any means connected with such transactions would abstain from voting.

**(V) Measures Taken to Ensure the Performance of Duties by Directors**

1. The Company would supply the Director with all the relevant and necessary information when the Director takes office. The Company would subsequently provide the Directors with all the newly promulgated laws and regulations as well as information and development concerning the Company, such as its internal publications, and arrange for the Directors to attend relevant continuing professional training courses, in order to assist them to fully understand their duties as a director under the requirements of relevant laws and regulations, such as the Listing Rules, as well as gaining comprehensive insight in the Company's operation in a timely manner.
2. Whenever the Directors of the Company are required to provide an opinion in relation to matters including provision of third party guarantees, appropriation of funds and connected transactions, the Company would engage relevant independent professional bodies, such as auditors, independent financial advisors and lawyers, to provide independent and professional advice so as to assist the Directors in performing their duties.
3. The Company has taken out liability insurance for Directors, Supervisors and senior management for a term of 1 year with AIU Insurance Company Shenzhen Branch in respect of potential legal actions arising from the performance of duties by the Directors. The policy was considered and approved at the eighth meeting of the fourth session of the Board of Directors held on 26 September 2007 with the mandate of the general meeting.

**(VI) Board Committees**

There are 3 specialist committees under the Board of Directors, namely the Remuneration and Evaluation Committee, Nomination Committee and Audit Committee. On 30 March 2007, the fourth session of the Remuneration and Evaluation Committee, Nomination Committee and Audit Committee was elected for the fourth session of the Board of Directors. The terms of reference defining the responsibilities and delegation for each of the specialist committees have been formulated. The order of meeting for the specialist committees is implemented by reference to the statutory procedures for meetings of the Board of Directors.

**1. The Remuneration and Evaluation Committee****(1) The role and functions of the Remuneration and Evaluation Committee**

The Remuneration and Evaluation Committee is responsible for determining and reviewing specific remuneration packages and performances of the Directors and senior management based on the management policies and structures for the remuneration and performance of Directors and senior management laid down by the Board of Directors.

**(2) Members and Meetings of the Remuneration and Evaluation Committee**

The Remuneration and Evaluation Committee comprises 6 members, including 4 Independent Directors and 2 Non-executive Directors. The convener of the Remuneration and Evaluation Committee is Independent Director Mr. Zhu Wuxiang. Members of the committee include Mr. Hou Weigui, Mr. Wang Zongyin, Mr. Chen Shaohua, Mr. Mi Zhengkun and Mr. Li Jin.

In 2007, the Remuneration and Evaluation Committee convened 7 meetings. Attendance at the meetings was as follows:

<b>Members of the Remuneration and Evaluation Committee</b>	<b>Attendance in person</b>	<b>Attendance by proxy</b>
Zhu Wuxiang	7/7	—
Hou Weigui	7/7	—
Wang Zongyin	5/7	2/7
Chen Shaohua	7/7	—
Mi Zhengkun	7/7	—
Li Jin	6/7	1/7

**(3) The decision-making process and criteria for determining remuneration for Directors and senior management**

The Remuneration and Evaluation Committee makes recommendations to the Board of Directors on the allowances for Directors by reference to the work performance of the Directors of the Company as well as the levels offered by other listed companies in the industry. Such recommendations shall be confirmed upon consideration and approval both by the Board of Directors and the general meeting.

The Remuneration and Evaluation Committee reviews remuneration appraisals on an annual basis to determine the annual remuneration budget. It also conducts annual performance appraisals in respect of each senior management personnel of the Company and determines the remuneration of such senior management personnel based on the results of such appraisals.



#### (4) Work of the Remuneration and Evaluation Committee during the year

The Remuneration and Evaluation Committee held 7 meetings in 2007 to:

- a) Review and approve the resolution on the adjustment of Directors' subsidies (being the adjustment of subsidies given to Non-Independent Directors and Independent Directors not holding offices at the Company from RMB60,000 (before tax) to RMB100,000 (before tax) per year to better reflect the level of responsibility undertaken by Directors concerned) for submission to the Board of Directors of the Company for consideration and approval;
- b) Elect Mr. Zhu Wuxiang as the convenor of the fourth session of the Remuneration and Evaluation Committee;
- c) Review the remuneration packages for 2006; performance appraisal of the President and other senior management of the Company for 2006 and determining their remuneration for 2006;
- d) Review and approve the 2007 remuneration budget of the Company;
- e) Review and approve the resolution on the renewal of the liability insurance for Directors, Supervisors and senior management and submission of the same to the Board of Directors for consideration and approval.
- f) Review and approve the performance management plan for the senior management of the Company for 2007.
- g) Perform work relating to the implementation of the Phase I Share Incentive Scheme of the Company.

## 2. The Nomination Committee

### (1) The role and functions of the Nomination Committee

The Nomination Committee is primarily responsible for considering standards and procedures for the selection of Directors and senior management of the Company. The committee considers the criteria, procedures and duration of appointment for Directors and senior management of the Company in accordance with relevant laws and regulations and the Articles and taking into account the actual conditions of the Company. The Nomination Committee then submits a proposal to the Board of Directors for its approval, and implements the decisions made by the Board of Directors.

### (2) Members and Meetings of the Nomination Committee

The Nomination Committee comprises 7 members, including 4 Independent Non-executive Directors and 3 Non-executive Directors. The convenor of the Nomination Committee is Independent Director Mr. Mi Zhengkun. Members of the committee included Mr. Hou Weigui, Mr. Xie Weiliang, Mr. Li Juping, Mr. Zhu Wuxiang, Mr. Qiao Wenjun and Mr. Li Jin.

In 2007, the Nomination Committee convened 3 meetings. Attendance of the meetings was as follows:

<b>Members of the Nomination Committee</b>	<b>Attendance in person</b>	<b>Attendance by proxy</b>
Mi Zhengkun	3/3	—
Hou Weigui	3/3	—
Xie Weiliang	2/3	1/3
Li Juping	3/3	—
Zhu Wuxiang	3/3	—
Qiao Wenjun	2/3	1/3
Li Jin	3/3	—

### (3) Procedures for the election and appointment of Directors and the senior management

The Nomination Committee conducts extensive searches for candidates of Directors and senior management both internally in the Company, its subsidiaries or associate companies and externally in the open market after considering the Company's requirements for new Directors and senior management. With the consent of the potential candidates, a meeting of the Nomination Committee will be convened to examine the qualifications of the initial nominees based on the conditions for appointment of Directors and senior management. One month prior to the election of new Directors, the Nomination Committee will propose candidates for directorship to the Board of Directors and furnish the Board with relevant information. Prior to the appointment of any new senior management staff, the Nomination Committee will also propose to the Board of Directors candidates to be appointed as senior management staff and furnish the Board with relevant information.

### (4) Work of the Nomination Committee during the year

In 2007, the Nomination Committee held 3 meetings to:

- a) review and approve the resolution on the proposal of candidates to be elected Directors of the fourth session of the Board of Directors of the Company prior to the conclusion of the third session of the Board of Directors of the Company, for submission to the Board of Directors and then the general meeting of the Company for consideration and approval;
- b) study the Company's requirements for senior staff and conduct extensive search for potential candidates of senior management staff; review and approve the resolution on the appointment of the new senior management team under the fourth session of the Board of Directors of the Company, for submission to the fourth session of the Board of Directors for consideration and approval;
- c) Elect Mr. Mi Zhengkun as the convener of the fourth session of the Nomination Committee;

## 3. The Audit Committee

### (1) The role and functions of the Audit Committee

The Audit Committee is primarily responsible for making recommendations to the Board of Directors on the appointment and dismissal, remuneration and terms of engagement of external auditors, supervising the implementation of the Company's internal audit system, reviewing the financial information of the Company and its disclosure (including the inspection of the Company's financial statements and annual reports and accounts, interim reports and quarterly reports as to whether they are complete, as well as the review of significant opinions on financial reporting contained in the statements and reports), assessing the financial controls, internal controls and risk management system of the Company, and reviewing material connected transactions.

## (2) Members and Meetings of the Audit Committee

The Audit Committee comprises 7 members, including 4 Independent non-executive Directors and 3 Non-executive Directors. The convenor of the Audit Committee is Independent Director Mr. Chen Shaohua. Members of the committee included Mr. Hou Weigui, Mr. Zhang Junchao, Mr. Dong Lianbo, Mr. Zhu Wuxiang, Mr. Qiao Wenjun and Mr. Mi Zhengkun. The Audit Committee was in compliance with Rule 3.21 of the Hong Kong Stock Exchange Listing Rules.

In 2007, the Audit Committee convened four meetings. Attendance of the meetings was as follows:

Members of the Audit Committee	Attendance in person	Attendance by proxy
Chen Shaohua	4/4	—
Hou Weigui	3/4	1/4
Zhang Junchao	1/4	3/4
Dong Lianbo	4/4	—
Zhu Wuxiang	4/4	—
Qiao Wenjun	4/4	—
Mi Zhengkun	4/4	—

## (3) Work of the Audit Committee during the year

The Audit Committee convened 4 meetings in 2007 to:

- a) Elect Mr. Chen Shaohua as the convenor of the fourth session of the Audit Committee;
- b) Review the financial report of the Company for the year ended 31 December 2006, which was then submitted to the Board of Directors for its consideration and approval;
- c) Review the resolution of the Company on the implementation of the “New Enterprise Accounting Standards”;
- d) Review the internal audit and internal control reports of the Company for the year ended 31 December 2006;
- e) Review the audit fees payable to the PRC and international auditors for the year ended 31 December 2006 and submit the same to the Board of Directors for its consideration and approval;
- f) Review the interim financial report of the Company for the six months ended 30 June 2007, which was then submitted to the Board of Directors for its consideration and approval;
- g) Review the internal audit and internal control testing reports of the Company for the six months ended 30 June 2007;
- h) Review whether actions taken by the management in litigations in which the Company or any members of the Group is a defendant are appropriate;
- i) Review resolutions of the Company on the appointment of PRC and international auditors for 2007 and submit the same to the Board of Directors and general meeting for consideration and approval.

The Audit Committee has reviewed the accounting principles and standards adopted by the Group in association with the management, investigated, audited and improved the internal control systems, effectiveness testing for operations and financial reporting of the Company, including the review of the audited financial report for the year ended 31 December 2007.

#### **(VII) Division of Responsibilities between the Board of Directors and Management**

The responsibilities and duties of the Board of Directors and the management have been clearly defined. Duties of the Board of Directors are set forth in Article 160 of the Articles, while the management should be accountable to the Board of Directors by furnishing adequate information to the Board of Directors and the specialist committees to enable them to make informed decisions. Each Director is entitled to obtain further information from the management of the Group.

#### **(VIII) Chairman and the Chief Executive Officer**

The Chairman of the Company is Mr. Hou Weigui and the President of the Company is Mr. Yin Yimin. The role of the Chairman is separated from that of the President of the Company and their respective duties and functions are clearly defined in the Articles. Duties of the Chairman and the President of the Company are set forth in Articles 164 and 180 of the Articles, respectively.

The Chairman is responsible for the operation of the Board of Directors and advising the Board of Directors and the Group on the overall strategy and policies of the Company so as to ensure that all Directors act in the best interest of the shareholders.

The President of the Company is responsible for leading the management team of the Group to take charge of the day-to-day management and operation of the Company according to the objectives and directions set up by the Board of Directors and the internal control policy and procedure of the Company.

The President of the Company should maintain on-going communications with the Chairman and all Directors and report his work to the Board of Directors regularly to ensure that all Directors are well informed of any material business development of the Group.

### **III. The Supervisory Committee**

#### **(I) Members and Meetings of the Supervisory Committee**

The Supervisory Committee of the Company comprises Mr. Zhang Taifeng (Chairman), Mr. Wang Wangxi, Ms. He Xuemei, Mr. Qu Deqian and Ms. Wang Yan. For details of re-election of the fourth session of supervisory committee please refer to Part VI (5) of this annual report headed "Changes in Directors, Supervisors and Senior Management"

Attendance of meetings of the Supervisory Committee in 2007 is set out as follows:

<b>Members of the Supervisory Committee</b>	<b>Attendance in person</b>	<b>Attendance by proxy</b>
Zhang Taifeng	7/7	—
Wang Wangxi	7/7	—
He Xuemei	7/7	—
Qu Deqian	7/7	—
Wang Yan	7/7	—

(II) *Details of the Supervisory Committee meetings convened during the year and the work of the Supervisory Committee in 2007 are set out in Part XI of this annual report headed "Report of the Supervisory Committee".*

#### **IV. Remuneration and Interests of Directors, Supervisors and the President**

##### *(I) Remuneration*

Please refer to Part VI (2) of this annual report headed "Changes in the shareholdings and annual remuneration of Directors, supervisors and senior management" for details of the annual remuneration of the Directors, Supervisors and senior management of the Company.

Further details of the remuneration of Directors and Supervisors for the year are set out in Note 8 to the financial statements prepared in accordance with HKFRSs.

##### *(II) Interests*

##### **(1) Service contracts and contractual interests of the Directors and Supervisors**

None of the Directors and Supervisors of the Company has entered into any service contract with the Group which is not terminable by the Group within one year without payment of compensation (other than statutory compensation).

##### **(2) Interests of Directors and Supervisors in contracts**

None of the Directors and Supervisors of the Company was materially interested, either directly or indirectly, in any contracts of significance to which the Group is a party subsisting during or at the end of 2007.

##### **(3) Interests of Directors, Supervisors and the President in shares or debentures**

The interests in shares of the Company held by Directors, Supervisors and the President of the Company as at 31 December 2007 are set out in Part VI (2) of this annual report headed "Changes in the Shareholdings and Remuneration of the Company's Directors, Supervisors and Senior Management".

Save as disclosed above, as at 31 December 2007, none of the Directors, Supervisors and the President had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) that is required to be recorded in the register to be kept under Section 352 of the Securities and Futures Ordinance, or otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Hong Kong Stock Exchange Listing Rules.

As at 31 December 2007, none of the Directors, Supervisors or the President, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

##### **(4) Securities transactions by Directors and Supervisors**

The Company has adopted code provisions relating to the dealing in the Company's shares by Directors contained in the Model Code. After making specific enquiry with all Directors and Supervisors, the Company confirms that all Directors and Supervisors of the Company were in full compliance with the Model Code throughout 2007.



## V. Remuneration Package and Retirement Benefits for Employees

The remuneration package for the Group's employees includes salary, bonuses and allowances. Our employees also receive welfare benefits including medical care, housing subsidies, retirement and other miscellaneous benefits. In accordance with applicable PRC regulations, the Group participated in social insurance contribution plans organised by the relevant government authorities, under which we paid monthly contributions towards each employee's social insurance in an amount equivalent to a specified percentage of his/her monthly salaries. Further details of the remuneration of top 5 employees of the company for the year are set out in Note 9 to the financial statements prepared in accordance with HKFRSs.

Details of staff retirement benefits provided by the Group are set out in Note 34 to the financial statements prepared in accordance with HKFRSs.

## VI. Auditors' Remuneration

Ernst & Young Hua Ming and Ernst & Young acted as the Group's PRC and Hong Kong auditors, respectively.

Ernst & Young Hua Ming has been appointed the Company's PRC auditors for 3 consecutive years (2005, 2006 and 2007). Ernst & Young has been appointed the Company's Hong Kong auditors for 4 consecutive years since 2004.

Items	Amount	Auditors
Audit fees 2007	RMB840,000	Ernst & Young Hua Ming
Audit fees 2007	HKD5,040,000	Ernst & Young

## VII. Internal Control

The Board of Directors of the Company is responsible for reviewing the Company's internal control systems to ensure its effective implementation. The Board of Directors has delegated to the Audit Committee the responsibility for reviewing the effectiveness of the internal control systems of the Company and its subsidiaries.

The Company continued to improve its internal control system in 2007 and monitor on a daily ongoing basis any significant changes in five areas, namely the environment for control, risk assessment, business controls, information and communications and supervision. Timely and effective assessments were conducted in respect of any internal control elements that might have a significant impact. Effective implementation of the internal control system is assured through a fourfold process: regular review of key risk exposures, processes and internal control designs in response to key risk exposures, process implementation, effectiveness assessment of internal controls and measures for improvement.

The Audit Committee under the Board of Directors convened 2 regular meetings each year to review the effectiveness of and identify rooms for further improvements in financial, operational and supervisory controls and the risk management procedures. Reports were submitted to the Board of Directors of the Company on the implementation of internal control measures.

The internal control system of the Company was designed to provide reasonable (but not absolute) assurance against material misstatements or losses and to manage (but not eliminate) risks arising from the malfunctioning of operating systems or failures to attain the Company's objectives. The Board of Directors is of the view that the internal control system was in normal operation during the year ended 31 December 2007.

For details of the Company's internal control in 2007, please refer to the section headed "VI. Establishment and Improvement and Self-Assessment of the Company's Internal Control System" in "PART I: CORPORATE GOVERNANCE WORK REPORT".

## GENERAL MEETINGS OF SHAREHOLDERS

The 2006 annual general meeting was held on-site on 15 June 2007. The announcement of resolutions passed at the meeting was published in China Securities Journal, Securities Times and Shanghai Securities News, The Standard and Hong Kong Economic Times on 18 June 2007.

The Company convened three extraordinary general meetings on-site on 13 March 2007, 30 March 2007 and 16 October 2007, respectively. The announcements of resolutions passed at the meetings were published in China Securities Journal, Securities Times and Shanghai Securities News, The Standard and Hong Kong Economic Times on 14 March 2007, 2 April 2007 and 17 October 2007, respectively.

# REPORT OF THE BOARD OF DIRECTORS

The Board of Directors is pleased to present its report together with the audited financial statements of the Company and the Group for the year ended 31 December 2007.

## **BUSINESS OF THE GROUP**

The Group is principally engaged in the design, development, production, distribution and installation of a broad range of advanced telecommunications equipment, including wireless communications systems, wireline switch and access equipment, optical and data communications equipment, handsets, and telecommunications software systems and services.

## **FINANCIAL RESULTS**

Please refer to page 109 and page 216 this annual report for the results of the Group for the year ended 31 December 2007 prepared in accordance with PRC GAAP and HKFRSs.

## **FINANCIAL SUMMARY**

Set out on page 18 of this annual report are the results and financial position summary of the Group for the three financial years ended 31 December 2007 prepared in accordance with the PRC GAAP.

Set out on page 20 of this annual report are the results and financial position summary of the Group for the five financial years ended 31 December 2007 prepared in accordance with HKFRSs, which have been extracted from the accountants' report of the Group for the financial year ended 31 December 2003 contained in the prospectus dated 29 November 2004 issued by the Company in connection with its initial public offering of H shares and financial statements of the Group for the years ended 31 December 2004, 2005, 2006 and 2007 prepared in accordance with HKFRSs.

### **(I) Business review for 2007**

#### ***Overview of the PRC telecommunications industry in 2007***

China's telecommunications industry maintained sustainable growth during 2007. According to the statistics from the Ministry of Information Industry, revenue for the telecommunications sector in China grew by 10.9% to RMB728.01 billion in 2007, as compared to the same period last year. Fixed assets investments from telecommunications carriers grew 4.3% to RMB227.99 billion.

In 2007, the overall scale of leading manufacturers had been significantly expanded in the wake of further consolidation of markets shares by established players.

#### ***Overview of the global telecommunications industry in 2007***

The global communications market continued to be dominated by the themes of mobile communication, broadband connection and service integration in 2007. Mobile networks in developed countries were speeding up transition to new-generation technologies, while wireless network systems were still the products to watch in emerging markets as they overtook wireline products in terms of investment scale. The rapid development of emerging markets was becoming a new driving force to the global communications market.

Increasing competition in the industry in the wake of mergers and restructuring of carriers and equipment manufacturers catalysed the process of business diversification for carriers, notably with mainstream players increasing their investments in emerging markets.

### *Operating results of the Group for 2007*

The Group's business sustained rapid growth during the reporting period as its international operations enjoyed rapid development in 2007. Sales revenue of the Group based on financial statements prepared in accordance with PRC GAAP amounted to RMB34.777 billion, representing a year-on-year growth of 49.81%. Net profit grew 63.26% to RMB1,252 million.

#### ***By market:***

##### *The domestic market*

The Group's revenue from its domestic operations amounted to RMB14.687 billion in 2007, representing a year-on-year growth of 13.83%. The Group implemented its strategies of product differentiation and cost leadership in full appreciation of the development trends of the domestic communications market. Meanwhile, we further strengthened ties with domestic mainstream carriers like China Mobile, China Telecom, China Unicom and China Netcom through the provision of quality products and services.

##### *The international market*

In 2007, the Group's revenue from its international operations grew 94.83% to RMB20.090 billion and accounted for 57.77% of its total revenue, which was 13.35 percentage points higher compared the previous year. Growth of revenue from our international business was driven by continued revenue growth in emerging markets and increased sales in developed countries.

#### ***By product:***

##### *Wireless communications products*

Sales of the Group's wireless communications products grew rapidly in 2007. Our GSM sales registered significant year-on-year growth with surging market share, drawing on new markets and carrier-customers with strong potentials highlighted by groundbreaking sales to certain high-end carriers while maintaining its presence in traditional strongholds. Significant progress was achieved in the 3G business as our TD-SCDMA wireless network and core network products secured significant market shares in tendering process for the construction of the extended trial network for TD-SCDMA large-scale network technology application organised by carriers. Our WCDMA products gained significant international access as we further improved the market mix for this product segment. Our CDMA products continued to register sales growth.

##### *Wireline switch and access products*

In 2007, the Group maintained development in the segment of wireline switch and access products by closely monitoring the trend of network integration in the communications market and committing investments in a focused manner.

##### *Optical and data communications and products*

The Group's optical business sustained rapid growth during the year with a substantially enlarged market coverage, capitalising on trend of broadband application in the global telecommunications.

### Handsets

The Group's handset business enjoyed rapid growth in 2007. Handset sales exceeded major benchmarks as closer ties with multinational carriers provided solid support for our business development. There was also significant growth in oversea sales, which accounted for increasing weight in the Group's total handset sales. Sales growth has been spearheaded by GSM and WCDMA handsets and we will continue to enhance brand building for our handset products and investment in high-end handsets to assure sustained growth for our handset segment.

### Miscellaneous

The Group secured growth in value-added services and network management businesses in 2007 with the benefit of increased carrier investments in these two areas.

## (II) Discussion and analysis prepared under PRC GAAP

The financial data below are extracted from the Group's audited financial statements for the year ended 31 December 2007 prepared in accordance with PRC GAAP. The following discussion and analysis should be read in conjunction with the Group's financial statements audited by Ernst & Young Hua Ming Certified Public Accountants and the accompanying notes thereto.

### 1 Certain indicators by industry, product and geographic segments for the reporting period as compared to the previous year

Revenue mix	Sales revenue (RMB in millions)	Operating costs (RMB in millions)	Operating profit margin	Year-on-year increase/ decrease in sales revenue	Year-on-year increase/ decrease in operating costs	Year-on-year increase/ decrease in operating profit margin (basis point)
<b>I. By industry</b>						
Manufacturing of communication systems	34,777.2	23,004.5	33.85%	49.81%	50.62%	-0.36
<b>Total</b>	<b>34,777.2</b>	<b>23,004.5</b>	<b>33.85%</b>	<b>49.81%</b>	<b>50.62%</b>	<b>-0.36</b>
<b>II. By product</b>						
Wireless communications systems	14,851.5	8,283.5	44.22%	61.66%	58.86%	0.98
Wireline switch and access systems	1,350.1	751.5	44.34%	-40.77%	-44.47%	3.71
Optical and data communications systems	6,365.9	4,362.2	31.48%	64.30%	48.44%	7.32
Handset	7,645.1	5,939.8	22.31%	69.16%	75.38%	-2.75
Telecommunication software systems, services and other products	4,564.6	3,667.5	19.65%	36.09%	54.11%	-9.39
<b>Total</b>	<b>34,777.2</b>	<b>23,004.5</b>	<b>33.85%</b>	<b>49.81%</b>	<b>50.62%</b>	<b>-0.36</b>
<b>III. By geographic region</b>						
The PRC	14,686.6	9,987.8	31.99%	13.83%	16.03%	-1.29
Asia (excluding the PRC)	9,679.4	6,907.1	28.64%	67.26%	75.51%	-3.35
Africa	5,484.8	2,903.8	47.06%	111.21%	91.08%	5.58
Other regions	4,926.4	3,205.8	34.93%	155.54%	164.87%	-2.29
<b>Total</b>	<b>34,777.2</b>	<b>23,004.5</b>	<b>33.85%</b>	<b>49.81%</b>	<b>50.62%</b>	<b>-0.36</b>

## 2 Certain indicators for major products accounting for 10% of sales revenue or operating profit

By product	Sales revenue (RMB in millions)	Operating costs (RMB in millions)	Operating profit margin
Wireless communications systems	14,851.5	8,283.5	44.22%
Handset	7,645.1	5,939.8	22.31%
Optical and data communications systems	6,365.9	4,362.2	31.48%
Telecommunication software systems, services and other products	4,564.6	3,667.5	19.65%

## 3 Breakdown of the Company's assets

Unit: RMB in millions

Items	2007		2006		Increase/ decrease
	Amount	As a percentage of total assets	Amount	As a percentage of total assets	
Total assets	39,173.1	100%	25,760.7	100.00%	52.07% <sup>1</sup>
Trade receivables	7,680.0	19.61%	5,702.3	22.14%	34.68% <sup>2</sup>
Fixed assets	3,038.1	7.76%	2,591.9	10.06%	17.22%
Long-term equity investments	137.0	0.35%	57.2	0.22%	139.51% <sup>3</sup>
Construction in progress	931.1	2.38%	469.6	1.82%	98.28% <sup>4</sup>
Short-term borrowings	4,403.4	11.24%	945.7	3.67%	365.62% <sup>5</sup>
Inventories	5,363.4	13.69%	2,481.2	9.63%	116.16% <sup>6</sup>
Investment property	0	0	0	0	0
Long-term loan	2,085.2	5.32%	1,679.2	6.52%	24.18%

Note 1: The balance of total assets increased by 52.07%, year-on-year, as a result of the increase in trade receivables, long-term equity investments, construction in progress, monetary funds and inventory.

Note 2: The balance of trade receivables increased by 34.68%, year-on-year, as a result of expanded sales.

Note 3: The balance of long-term equity investments increased by 139.51%, year-on-year, as a result of increased investments.

Note 4: The balance of construction in progress increased by 98.28%, year-on-year, mainly as a result of increased construction expenditure for ZTE Industrial Park and R&D centres in Nanjing and Shanghai.

Note 5: The balance of short-term borrowings increased by 365.62%, year-on-year, mainly reflecting new USD loans to meet working capital requirements and as a means to avoid foreign exchange risks.

Note 6: The balance of inventory increased by 116.16%, year-on-year, reflecting mainly the increase in purchases in line with sales growth and the increase in contracts under execution.



#### 4 Breakdown of profit, expenses and income tax of the Company for the period

Items	As a percentage of total profit		Increase/decrease (percentage points)
	2007	2006	
Operating profit	57.92%	38.63%	19.29
Expenses for the period	571.70%	723.50%	-151.80 <sup>1</sup>
Investment gains	3.44%	3.09%	0.35
Non-operating income and expenses, net	42.08%	61.37%	-19.29

Note 1: Expenses for the period as a percentage of total profit decreased by 151.80 percentage points mainly as a result of the expansion of business scale.

Unit: RMB in millions

Items	2007	2006	Increase/decrease
Selling and distribution expenses	4,395.1	3,140.1	39.97% <sup>1</sup>
General and administrative expenses	1,777.6	1,244.7	42.81% <sup>1</sup>
Finance expenses	494.4	239.6	106.34% <sup>2</sup>
Income tax	276.3	127.1	117.39% <sup>3</sup>

Note 1: The balance of selling and distribution expenses and general and administrative expenses increased by 39.97% and 42.81% year-on-year, respectively, mainly as a result of the expansion of business scale.

Note 2: Finance expenses increased by 106.34%, year-on-year, mainly as a result of increased interest expenses in line with the increase in borrowings.

Note 3: Income tax increased by 117.39%, year-on-year, mainly as a result of the increase in overseas tax.

#### 5 Breakdown of cash flow

Unit: RMB in millions

Items	2007	2006	Increase/decrease
Net cash flow from operating activities	88.4	-1,548.1	105.71% <sup>1</sup>
Net cash flow from investing activities	-1,757.6	-1,163.6	-51.05% <sup>2</sup>
Net cash flow from financing activities	3,828.3	1,465.8	161.17% <sup>3</sup>

Note 1: Net cash flow from operating activities increased by 105.71%, year-on-year, mainly as a result of increased sales revenue, enhanced cash collection and tax rebates.

Note 2: Net cash flow from investing activities decreased by 51.05%, year-on-year, mainly as a result of the increase in the purchase of fixed assets and construction in progress.

Note 3: Net cash flow from financing activities increased by 161.17%, year-on-year, mainly as a result of increased bank borrowings.

## 6 Business operations and results of principal subsidiaries

### (1) Business operations of the Company's principal subsidiaries:

Name of company	Registered capital	Shareholding percentage (%)	Scope of business	Total assets (RMB in millions)	Net assets (RMB in millions)	Revenue from principal operations (RMB in millions)	Profit from principal operations (RMB in millions)	Net profit (RMB in millions)
ZTE Software	RMB50 million	98	Development, production and sale of telecommunications system drivers, software for service-based businesses and provision of related technical consultancy services	2,726.5	2,035.5	5,451.1	2,362.1	2,990.0
ZTE HK	HK\$50 million	100	Sales of products, purchase of original parts and ancillary equipment; technology development and transfer; training and consultation; investment and financing	2,176.8	754.0	3,942.4	1,100.0	1,077.5
Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited	RMB50 million	100	Technology development for computer network, software, electronic equipment and communications products, domestic supplies; information consultation	1,179.1	337.3	1,203.4	464.7	462.7
ZTE Kangxun	RMB50 million	90	Production of electronic products and related parts (excluding restricted items)	8,735.1	1,925.7	21,784.2	317.7	282.6

## (2) Subsidiaries acquired or disposed of during the year

Name of subsidiaries	Acquisition or disposal	Purpose of acquisition or disposal	Acquisition or disposal	Effect on overall production and results of Company
深圳市中聯成電子發展有限公司	Acquisition	Production requirements	New incorporation	Expansion of production scale
深圳市興意達通訊技術有限公司	Acquisition	Production requirements	New incorporation	Expansion of production scale
南京中興軟創軟件技術有限公司	Acquisition	Production requirements	New incorporation	Expansion of production scale
深圳萬譽電子技術有限公司	Acquisition	Production requirements	New incorporation	Expansion of production scale
合肥中興電子科技有限責任公司	Acquisition	Production requirements	New incorporation	Expansion of production scale
南京中興特種設備有限責任公司	Acquisition	Production requirements	New incorporation	Expansion of production scale
天津中興軟件有限責任公司	Acquisition	Production requirements	New incorporation	Expansion of production scale
洪湖市洪湖浪米業有限責任公司	Acquisition	Production requirements	New incorporation	Expansion of production scale
洪湖市中興置業有限公司	Acquisition	Production requirements	New incorporation	Expansion of production scale
LiveCom Limited	Acquisition	Production requirements	New incorporation	Expansion of production scale
ZTE PHILIPPINES INC	Acquisition	Production requirements	New incorporation	Expansion of production scale
ZTE ITALY S.R.L.	Acquisition	Production requirements	New incorporation	Expansion of production scale
ZHONGXING CORPORATION, S.L	Acquisition	Production requirements	New incorporation	Expansion of production scale
ZTE (H.K) Ethiopia LTD.	Acquisition	Production requirements	New incorporation	Expansion of production scale
ZTE Telecom SOUTH AFRICA	Acquisition	Production requirements	New incorporation	Expansion of production scale
ZTE DE VENEZUELA, C.A.	Acquisition	Production requirements	New incorporation	Expansion of production scale
ZTE HK (Cambodia) Co., Ltd	Acquisition	Production requirements	New incorporation	Expansion of production scale
EURL ZTE ALGERIE	Acquisition	Production requirements	New incorporation	Expansion of production scale
ZTE PARSIAN CO.	Acquisition	Production requirements	New incorporation	Expansion of production scale
ZTE Afghanistan LTD.	Acquisition	Production requirements	New incorporation	Expansion of production scale
ZTE Corporation Bangladesh Ltd.	Acquisition	Production requirements	New incorporation	Expansion of production scale
ZTE HELLAS TELE-COMMUNICATIONS S.A.	Acquisition	Production requirements	New incorporation	Expansion of production scale
Anhui Wantong Tower Installation Company, Limited	Disposal	Business integration requirements	Deregistration	Improvement of operating efficiency
Anhui Wantong Information System Integration Company, Limited	Disposal	Business integration requirements	Deregistration	Improvement of operating efficiency

There was no single investee company from which the Company derived investment gains accounting for more than 10% of the Company's net profit.

For details of other subsidiaries and major investee companies, please refer to Note V and Note VI "11. Long-term Equity Investments" to the financial report prepared under PRC GAAP.

**7. *There was no special-purpose entity under the control of the Company, as provided for in the practice note of "Enterprise Accounting Standards No. 33 – Combined Financial Statements".***

**8. *Technological innovations***

Proprietary development of new products is and will be a key strategic focus in the Group's development. In 2007, we consolidated our research and development platform with increased investments and enhanced parallel development to shorten the lead-time for product launch, providing strong assurance for the swift development of the Group's business.

In 2007, the Group's ZXWM M900 (long-distance wave length division transmission equipment) received the "National Award for Technological Progress." The ZXR10 series of ethernet exchange products was named a "PRC Famous Brand 2007" on the back of outstanding product quality, innovative technology and successful market application. A series of TD-SCDMA systems and handsets with proprietary intellectual rights were also launched during the year, snatching dominant shares in various tenders organised by carriers.

The Group is committed to proprietary development of new products as a source for fueling its core competitive strengths in the long term.

**9. *Major suppliers and customers***

Purchases by the Group from its largest supplier amounted to RMB1,833 million in 2007, accounting for 7.8% of the total purchases of the Group for the year, while the purchases made from its five largest suppliers amounted to RMB4,148 million, accounting for 17.6% of the total purchases of the Group for the year. None of the Directors or Supervisors or their associates or any of the shareholders of the Company (other than Zhongxingxin) had any interest in any of the five largest suppliers of the Group (the above figures for the Group prepared in accordance with PRC GAAP were consistent with corresponding figures prepared in accordance with HKFRSs).

Sales by the Group in 2007 to its largest customer amounted to RMB4,595 million, accounting for 13.2% of the total sales of the Group for the year, while sales to its five largest customers amounted to RMB14,109 million, accounting for 40.6% of the total sales of the Group for the year. None of the Directors or Supervisors or their associates or any of the shareholders of the Company had any interest in any of the five largest customers of the Group (the above figures of the Group are consistent under PRC GAAP and HKFRSs).

**10. *Investments***

**(1) *Use of issue proceeds***

1. Relevant Scheme Participants of the Phase I Share Incentive Scheme of the Company paid subscription amounts for their Subject Shares between 14 March 2007 and 18 March 2007, which will be used as additional working capital for the Company. For details regarding the terms, progress and accounting treatment of the Phase I Share Incentive Scheme of the Company, please refer to the section headed "Material Matters" in the 2007 Annual Report.

2. The Company issued 40 million bonds cum warrants with a value of RMB4 billion (“Bonds cum Warrants”) on 30 January 2008. The net proceeds of RMB3,961,443,520 raised from the issue of the Bonds cum Warrants after deduction of the underwriting commission, sponsorship fees and registration fees were deposited into the designated account of the Company opened with National Development Bank, Shenzhen Branch (account number: 44301560040310230000) on 5 February 2008. A capital verification report in respect thereof was issued by Shenzhen Nanfang-Minhe CPA on 5 February 2008.

Proceeds from the issue after deducting issue expenses were applied to 11 projects as follows, with a total project investment of approximately RMB6.55 billion:

No.	Name of project	Planned investment for the project (RMB in ten thousands)
1	The building-up of the research and development and production environment and scale production capacity of TD-SCDMA HSDPA system equipment	18,782
2	The building-up of the development environment and scale production capacity of TD-SCDMA terminal products	11,776
3	Industrialisation of TD upgrade technology	67,326
4	Construction of innovative handset platform	174,915
5	Construction of next generation broadband wireless mobile SDR platform	53,358
6	Industrialisation of next generation IP-based amalgamation network for full multi-media services	39,727
7	Research, development and production of integrated network management system	56,635
8	Industrialisation of xPON optical access	49,371
9	Industrialisation of next generation optical network transmission equipment	64,108
10	Construction of ICT integrated business platform	99,647
11	Industrialisation of RFID systems integration	19,394
	<b>Total</b>	<b>655,039</b>

In order to expedite the construction of issue proceed investment projects, the Company had used internal funds for initial investments in issue proceed investment projects prior to the receipt of the issue proceeds. As at 31 December 2007, the actual amount invested using internal funds was RMB1,576,936,600. In order to increase capital efficiency and to reduce financial expenses, the Company subsequently replaced the initially invested internal funds with issue proceeds. For details of the replacement, please refer to the “Announcement on the Replacement of Internal Funds Previously Invested in Issue Proceed Investment Projects with Proceeds from the Issue of Bonds cum Warrants” of the Company dated 14 March 2008.

## (2) Significant investments using funds other than issue proceeds

In December 2007, Zhongxing Energy Limited (中興能源有限公司) was established with a registered capital of RMB1,290,000,000 by the Company in joint venture with connected parties Zhongxing WXT, Shenzhen Zhongxing Development Company, Limited (深圳中興發展有限公司), ZTE Investment Ltd (深圳市中興國際投資有限公司) and Mr. Hou Weigui, Chairman of the Company. The Company is interested in 23.26% of the registered capital of the Joint Venture Company with a capital contribution of RMB300 million. Zhongxing Energy Limited (中興能源有限公司) is principally engaged in the research and development, investment, generation and sale in the area of energy business. For further details, please refer to the “Announcement of Connected Transactions” and “Announcement of Progress of Connected Transactions” of the Company dated 26 October 2007 and 5 December 2007, respectively.

**11. *There were no changes in accounting policies and accounting estimates or retrospective adjustments of accounting errors for the year, save as the impact of new enterprise accounting standards implemented by the Group for the first time during the year***

**12. *Fair value changes in item measured at fair value and their impact on the Company's profit***

A small number of the Company's derivative financial tools which were stated at fair value based on market price, while others were stated at historical costs. For details please refer to "(1) Major financial data of the group prepared in accordance with PRC GAAP" under "IV. Accounting and Financial Data Highlights" of this report. The Company's derivative financial tools measured at fair value were subject uncertainties relating to fluctuations in forward exchange rates of RMB Versus US Dollar.

**13. *For the Special Notice on the Use of Funds of Listed Companies by the Controlling Shareholder and other Connected Parties issued by Ernst & Young Hua Ming, please refer to the announcement published by the Company on the website designated for information disclosure, on 20 March 2008.***

**14. *The independent opinion of the Independent Directors on the use of funds by Connected Parties and the Company's accumulated and current guarantees for 2007 was as follows:***

- (1) The transfer of funds between the Company and the controlling shareholder and other connected parties represent sales and purchases of goods in the ordinary course of business. Such transactions have been conducted based on fair market prices and were not adverse to the Company's interests. Neither the controlling shareholder of the Company nor its subsidiaries nor other connected parties have appropriated the Company's funds.
- (2) In order to standardise the management of third-party guarantees, the Company has formulated the Administrative Measures on Third-party Guarantees, and set out provisions in the Articles of Association the examination and approval procedures in relation to third-party guarantees. Details of guarantees disclosed in the 2007 annual report are true and the Company has not committed any unlawful acts of guarantees or connected guarantees.
- (3) As required by China Securities Regulatory Commission, the Independent Directors of the Company have reviewed the Company's transactions against the Notice regarding Certain Issues in Financial Transactions Between Listed Companies and Connected Parties and Third-party Guarantees made by Listed Companies" and are of the view that the Company has been in strict compliance with the relevant provisions under the Notice and have not found any matter which is in breach of the Notice.



### 15. Day-to-day operation of the Board of Directors

(1) During 2007, the Board of Directors of the Company convened thirteen meetings, the details of which are as follows:

Session	Date of meeting	Mode of meeting	Date of announcing resolutions of meeting	Newspaper for publication of announcements
21st meeting of the third session	24 January 2007	Voting in written communication	25 January 2007	
22nd meeting of the third session	26 January 2007	On-site meeting	29 January 2007	
23rd meeting of the third session	13 March 2007	Voting in written communication	14 March 2007	
1st meeting of the fourth session	30 March 2007	On-site meeting	2 April 2007	
2nd meeting of the fourth session	18 April 2007	On-site meeting	19 April 2007	
3rd meeting of the fourth session	25 April 2007	Video conference	Note 1	China Securities Journal, Securities Times, Shanghai Securities News, The Standard and Hong Kong Economic Times
4th meeting of the fourth session	28 May 2007	Voting in written communication	Note 2	
5th meeting of the fourth session	25 June 2007	Voting in written communication	26 June 2007	
6th meeting of the fourth session	20 July 2007	Voting in written communication	23 July 2007	
7th meeting of the fourth session	16 August 2007	On-site meeting	17 August 2007	
8th meeting of the fourth session	26 September 2007	Video conference	27 September 2007	
9th meeting of the fourth session	25 October 2007	Video conference	26 October 2007	
10th meeting of the fourth session	28 December 2007	Voting in written communication	29 December 2007	

Note 1: The third meeting of the fourth session of the Board of Directors was convened to consider and approve the 2007 First Quarter Report of the Company. Announcement was not required under relevant regulations laws.

Note 2: The fourth meeting of the fourth session of the Board of Directors was convened to consider and approve the self-inspection and rectification plan report as part of the Company's effort to enhance corporate governance. Such report had been submitted to the Shenzhen Stock Exchange for its review and announcement was not required.

Note 3: In accordance with the Listing Rules of the Stock Exchange of Hong Kong, effective from 25 June 2007, only reminders of the publication of announcements are required to be placed in The Standard and Hong Kong Economic Times, whereas the full text of announcements concerned will be published on the website of the Stock Exchange of Hong Kong and the Company's website.

*(2) Board implementation of resolutions of the general meeting*

1. Pursuant to the relevant resolution passed at the 2006 annual general meeting, the Board of Directors of the Company implemented the 2006 profit distribution plan, according to which RMB1.50 for every 10 shares (including tax) or a total of RMB143,928,000 was paid in cash on the basis of the Company's total share capital of 959,521,650 shares as at 31 December 2006. Record date for dividend payment for A shares: 26 July 2007. Ex-dividend date: 27 July 2007. Record date for dividend payment for H shares: 15 May 2007. Dividend payment date: 27 July 2007.
2. At the 2006 Annual General Meeting of the Company held on 15 June 2007, the Board of Directors of the Company was granted an unconditional and general mandate during the Relevant Period to separately or concurrently allot, issue and deal with additional domestic shares and overseas-listed foreign shares ("H Shares") of the Company and to make or grant offers, agreements or options in respect of the above. Pursuant to the mandate, the aggregate nominal amount of domestic shares and H shares authorised to be allotted and issued or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to an option or otherwise) by the Board of Directors shall not exceed 20% of the aggregate nominal amount of each of the share capital of the domestic shares and H shares of the Company in issue at the date on which the general mandate was granted. The Board of Directors of the Company exercised the said general mandate to issue warrants under the bonds cum warrants issue of the Company.
3. At the third extraordinary general meeting of the Company for 2007 held on 16 October 2007, the Board of Directors was authorised to deal with matters relating to the offer of the bonds cum warrants. Pursuant to the mandate, the Board of Directors processed the following:
  - (a) engagement of intermediaries relating to the Offer;
  - (b) implementation of the proposed issue in accordance with relevant provisions of pertinent laws, regulations and other regulatory documents and the resolutions of the general meeting, including but not limited to determining the timing of the offer and issue, the offer size and the number of warrants to be issued, the offer method (including the specific ratio for preferential placing to the existing holders of A shares not subject to lock-up), the bond interest rate level and method of determination, the exercise price and exercise ratio of the warrants and the method of determination, dealing with guarantees for the bonds cum warrants, agreeing on the method for protection of the rights of the bonds holders and the right, proceeding and the validity the resolution of meeting of the bond holders, handling with the listing of the bonds and warrants and other matters relating to the issue;
  - (c) dealing with all the reporting and filing matters in relation to the proposed offer and issue of the bonds cum warrants, including but not limited to the approval, registration, filing, endorsement and consent procedures with the relevant government authorities, regulatory authorities and stock exchanges and securities settlement and clearing institutions; execution, implementation, amendment and completion of all the agreements, contracts and documents necessary or desirable for the offer and issue of the Bonds cum warrants (including but not limited to the guarantee contracts, offering memoranda, sponsorship agreements, underwriting agreements, listing agreements and various announcements).

*(3) Summary report of the work of the Audit Committee*

During the reporting period, the Audit Committee diligently performed its duties in accordance with the “Detailed Rules for the Work of the Audit Committee” and the “Guidelines for Work of the Audit Committee relating to the Annual Report” and performed important duties such as supervision and inspection of the building and improvement of the Company’s internal control system and vetting of the annual financial auditing.

**1. Issue of three review opinions on the 2007 financial report of the Company**

Members of the Audit Committee boast rich expertise and experience in financial operations. During the reporting period, the Audit Committee issued three review opinions on the annual financial and accounting report of the Company in accordance with relevant requirements of the CSRC. The Audit Committee examined the unaudited financial statements and issued an opinion in writing. The Audit Committee is of the view that: relevant new accounting standards had been appropriately applied in the financial statements; key financial indicators calculated on the basis of data from the 2007 financial statements were consistent with preliminary estimates made by the Committee members based on known facts and comparison with financial indicators of 2006. The passing of the financial statements to the PRC and Hong Kong auditors for auditing was approved.

Following timely review of the preliminary opinion of the audit report and discussions with the PRC and Hong Kong auditors, the Audit Committee is of the view that the preliminary audit results of the 2007 annual report was in compliance with the new enterprise accounting standards and their practice notes.

Lastly, the Audit Committee reviewed the audit opinion of the PRC and Hong Kong auditors and the audited financial report of the Company for 2007. The Audit Committee is of the view that the report was a true representation of the financial status of the Company in 2007 and approved the submission of the report for the review of the Board of Directors.

**2. Supervision of the audit work of the accountants’ firm**

Owing the complex nature of the Company’s business and the implementation of new accounting standards for the first time during the year, the PRC and Hong Kong auditors of the Company had finalized the audit timetable for the year in November 2007 and submitted such timetable to Shenzhen CSRC at the end of 2007 in accordance with relevant requirements on annual report auditing announced by Shenzhen CSRC. In accordance with “Guidelines for Work of the Audit Committee relating to the Annual Report”, the Company arranged the timely report of such audit timetable to the Audit Committee. Following discussion with the accountants’ firms, the Audit Committee is of the view that the annual audit timetable scheduled by the Company according to actual circumstances was appropriate, and the Audit Committee concurred with the annual audit plan arranged by the accountants’ firms. During the course of audit, members of the Audit Committee held discussions with principal officers in charge of the assignment items to inform themselves of the progress of audit and concerns of the accountants. Such concerns were then communicated to relevant departments of the Company in a timely manner. The Audit Committee also issued two letters to the accountants’ firms requesting auditors in charge of the assignment to expedite their work in accordance with the original timetable.

**3. Summary Report on the 2007 audit work performed by the accountants’ firms**

The PRC and Hong Kong auditors of the Company performed auditing on the Company’s annual report during the period from November 2007 to March 2008. During such period, the PRC and Hong Kong auditors of the Company and the Audit Committee held discussions on the audit plan, and issues identified in the audit process were also brought to the attention of the Audit Committee in a timely manner. The preliminary audit opinion was submitted to the Audit Committee for its review. The PRC and Hong Kong auditors of the Company took nearly 4 months to complete the full audit process and acquire sufficient and appropriate audit evidence. The A-share and H-share audit reports with unqualified opinion were then submitted to the Audit Committee.

During the course of the annual audit, the Audit Committee held discussions and exchanged views with the PRC and Hong Kong auditors of the Company, and also examined the annual audit report furnished by the PRC and Hong Kong auditors. The Audit Committee is of the view that the PRC and Hong Kong auditors of the Company were capable of performing their tasks in strict accordance with audit regulations, focusing on knowledge of the Company and the environment in which it operated, understanding the building, improvement and implementation of the Company's internal control, demonstrating acute risk awareness and completing the audit work in accordance with the audit timetable. The auditors maintained their independence and prudence in the course of audit and completed the audit of the Company's 2007 financial report in a satisfactory manner.

#### 4. Recommendations on the appointment of PRC and Hong Kong auditors

Based on cooperation with Ernst & Young and Ernst & Young Hua Ming over the years, the Audit Committee is of the view that the PRC and Hong Kong auditors of the Company are major accountants' firms with high-calibre professional teams, full qualifications for the practice, rich practical experience and stringent internal management. As such, the Audit Committee recommends the Board of Directors to re-appoint Ernst & Young Hua Ming as PRC auditors and Ernst & Young as Hong Kong auditors of the Company for 2008.

#### 5. Supervision of measures to improve the Company's internal control system

The Audit Committee is highly concerned with the establishment of a department with appropriate staffing for the inspection and supervision of the Company's internal control. The Audit Department serves as the day-to-day executive arm of the Audit Committee to implement supervision and inspection of internal controls on behalf of the Audit Committee. The Audit Committee actively supports the Audit Department to perform its audit functions in accordance with the law and fulfill the supervisory role of the audit function. During the reporting period, the Audit Committee convened dedicated meetings to receive reports of the Audit Department and reports on the building, improvement and execution of the Company's internal control system. On this basis, suggestions for improvement were made in respect of the work of the Audit Department and the overall internal control of the Company.

#### (4) Summary report of the Remuneration and Evaluation Committee

1. For details of the work of the Remuneration and Evaluation Committee in 2007, please refer to the section headed "II. Board of Directors" in "PART II: CORPORATE GOVERNANCE REPORT".
2. Examination of disclosed remuneration of Directors, Supervisors and senior management of the Company

The Remuneration and Evaluation Committee has conducted detailed examination of disclosed remuneration of Directors, Supervisors and senior management of the Company, and is of the view that the procedure for determining the remuneration of Directors, Supervisors and senior management of the Company is in compliance with relevant provisions, and that the remuneration of Directors, Supervisors and senior management of the Company disclosed in the 2007 annual report of the Company is true and accurate.

3. The mandates granted in the course of implementing the Phase I Share Incentive Scheme of the Company is in compliance with relevant laws and regulations.

#### 16. Proposal for profit distribution and capitalization from capital reserve for 2007

Net profit of the Company for the year 2007 calculated in accordance with PRC GAAP amounted to RMB25,335,000. Profit available for distribution amounted to RMB1,657,752,000 after adding the undistributed profit of RMB1,632,417,000 carried forward at the beginning of the year. Net profit of the Company for the year 2007 calculated in accordance with HKFRSs amounted to RMB20,714,000. Profit available for distribution amounted to RMB1,663,298,000 after adding the undistributed profit of RMB1,642,584,000 carried forward at the beginning of the year.

In accordance with the requirements of the Ministry of Finance of the People's Republic of China and the Articles of Association, profit available for distribution shall be the lower of profit available for distribution as calculated in accordance with PRC GAAP and that calculated in accordance with HKFRSs. Therefore the amount of profit available for distribution is RMB1,657,752,000. The proposed profit distribution and capitalisation from capital reserve for 2007 recommended by the Board of Directors of the Company is as follows: Proposed profit distribution for 2007: RMB2.5 for every 10 shares (including tax) or a total of RMB239,880,000 in cash, based on the Company's total share capital of 959,521,650 shares as at 31 December 2007.

Proposed capitalisation from capital reserve for 2007: the creation of 4 shares for every 10 shares by way of capitalisation of capital reserves, representing a total increase of 383,808,660 shares based on the Company's total share capital of 959,521,650 shares as at 31 December 2007.

### **17 Designated newspapers for information disclosure in China**

China Securities Journal, Securities Times and Shanghai Securities News have been designated as newspapers for information disclosure by the Company in China.

## **(III) Business outlook and risk exposure for 2008**

### **1 Business outlook for 2008**

2008 is set to be a year of development for the domestic communications market, while stable growth is expected in the international scene. The Group's business development is expected to be driven by large-scale construction of 3G networks and swift growth in its handset and optical communication businesses.

The Group will continue to implement its stated strategies by reinforcing the development of GSM, CDMA, optical networks and service products, as well as key products such as GSM handsets and WCDMA handsets. We will also increase marketing efforts in TD-SCDMA/WCDMA products and TD-SCDMA handsets to capitalise on opportunities arising in the fast-growing 3G market. Increased investments will be committed to TD-SCDMA and WCDMA products, while preliminary research on technological advancements relating to new-generation broadband wireless and optical networks will be enhanced to further increase the cutting edge of our products. We will continue to reinforce our position in the domestic market and increase our presence internationally, with a view to forming a balanced global market mix. Meanwhile, we will also seek to improve our logistical efficiency and project execution capabilities to ensure swift business development in a healthy and sustainable manner.

To achieve the goals of development described above, the Group will secure its funding sources mainly by improving its operating efficiency, speeding up the turnover of funds and applying issue proceeds in a reasonable manner. Depending on market conditions, any additional funding requirements will be satisfied through the reasonable and effective use of financing tools, including bank loans.

### **2 Risk exposure**

#### **(1) Policy risks**

Investments in system equipment, especially in the case of China, are subject to macro-economic factors such as government policies.

#### **(2) Foreign exchange risks**

The Group will continue to experience imbalances in foreign exchange payments with the growth of its international business. Meanwhile, there are long-term risks relating to competition and foreign currency transaction as a result of the appreciation of RMB.

**(3) Credit risks**

The Group will encounter differing customer groups in developing its business of providing one-stop communications solutions, and its business will be affected by the varied credit profiles of these customers.

**(4) International market risks**

The Group has now established business presence in over 120 countries and regions. Such geographic coverage demands a high level of skills in business operation to cope with issues arising from differences in political and economic conditions, laws and regulations and cultural traditions.

**(IV) Other Matters in the Report of the Directors****1. Fixed assets**

Details of changes in fixed assets of the Company and the Group for the year are set out in note 15 and note 16 to the financial statements prepared in accordance with HKFRSs.

**2. Bank loans and other borrowings**

Details of bank loans and other borrowings of the Company and the Group as at 31 December 2007 are set out in note 33 to the financial statements prepared in accordance with HKFRSs.

**3. Reserves**

Details of the reserves and changes in the reserves of the Company and the Group for the year are set out in note 40 to the financial statements prepared in accordance with HKFRSs.

**4. Pre-emptive rights**

There is no provision under the Company Law of the People's Republic of China or the Articles of Association regarding preemptive rights that requires the Company to offer new shares to its existing shareholders on a pro rata basis.

**5. Purchase, sale or redemption of shares**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the year.

**6. Share capital**

Details of the share capital of the Company during the year, together with the changes in the share capital and the reasons therefor, are set out in note 38 to the financial statements prepared in accordance with HKFRSs and on page 24 in this annual report.



# MANAGEMENT DISCUSSION AND ANALYSIS

The financial data below are extracted from the Group's audited financial statements prepared in accordance with HKFRSs. The following discussion and analysis should be read in conjunction with the Group's financial statements audited by Ernst & Young and the accompanying notes as set out in this annual report.

Unit: RMB in millions

	2007	2006
<b>Revenue</b>		
Wireless communications systems	14,851.5	9,186.9
Wireline switch and access systems	1,350.1	2,279.4
Optical and data communications systems	6,365.9	3,874.6
Handset	7,645.1	4,519.5
Telecommunication software systems, services and other products	4,564.6	3,354.2
Total revenue	34,777.2	23,214.6
Cost of sales	(23,415.0)	(15,365.9)
Gross profit	11,362.2	7,848.7
Other income and revenue	1,028.0	724.7
Research and development costs	(3,210.4)	(2,832.7)
Selling and distribution costs	(4,531.5)	(3,274.7)
Administrative expenses	(1,718.2)	(1,097.6)
Other expenses	(898.2)	(191.5)
Profit from operating activities	2,031.9	1,176.9
Finance costs	(328.3)	(153.7)
Share of profit and loss of jointly controlled entities and associates	24.1	7.5
<b>Profit before tax</b>	1,727.7	1,030.7
Tax	(276.2)	(127.1)
<b>Profit before minority interests</b>	1,451.5	903.6
Attributable to:		
Minority interests	(199.3)	(136.6)
Attributable to:		
Shareholders of parent company	1,252.2	767.0
Dividend	239.9	143.9
<b>Earnings per share — Basic</b>	<b>RMB1.30</b>	RMB0.80
— Diluted	RMB1.29	RMB0.80

## REVENUE ANALYSED BY PRODUCT AND GEOGRAPHIC REGION

The following table sets out the revenue and the corresponding percentage of the total revenue attributable to the major product segments of the Group for the periods indicated:

Unit: RMB in millions

Product segment	2007		2006	
	Revenue	As a percentage of total revenue	Revenue	As a percentage of total revenue
Wireless communications systems	14,851.5	42.7%	9,186.9	39.6%
Wireline switch and access systems	1,350.1	3.9%	2,279.4	9.8%
Optical and data communications systems	6,365.9	18.3%	3,874.6	16.7%
Handset	7,645.1	22.0%	4,519.5	19.5%
Telecommunication software systems, services and other products	4,564.6	13.1%	3,354.2	14.4%
<b>Total</b>	<b>34,777.2</b>	<b>100.0%</b>	<b>23,214.6</b>	<b>100.0%</b>

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

Unit: RMB in millions

Region	2007		2006	
	Revenue	As a percentage of total revenue	Revenue	As a percentage of total revenue
The PRC	14,686.6	42.2%	12,902.8	55.6%
Asia (excluding the PRC)	9,679.4	27.8%	5,787.1	24.9%
Africa	5,484.8	15.8%	2,596.8	11.2%
Other regions	4,926.4	14.2%	1,927.9	8.3%
<b>Total</b>	<b>34,777.2</b>	<b>100.0%</b>	<b>23,214.6</b>	<b>100.0%</b>

The Group's sales revenue increased to RMB34,777.2 million in 2007, a 49.8% growth compared to last year. Sales revenue from international sales continued to register strong growth, increasing by 94.8% to RMB20,090.6 million. Analysed by product, revenue from the wireless communications products, handsets, optical and data communications systems and telecommunication software systems, services and other products recorded year-on-year growth, offsetting decrease in sales revenue from wireline switch and access products to result in significant growth in total sales revenue for the Group for 2007 versus the same period last year.

The growth in sales revenue from the Group's wireless communications segment was attributable mainly to increased international sales of its CDMA and GSM systems and domestic sales of its GSM systems and TD-SCDMA systems.

The decline in sales revenue from the Group's wireline switch and access segment was attributable mainly to reduced investments in such equipment by carriers.

The growth in sales revenue from the Group's optical and data communications segment was attributable mainly to increased sales of optical communications systems, DSL and other data communications products.

Sales revenue from the Group's handset product segment rose in tandem with substantial growth in the international sales of CDMA, 3G and GSM handsets.

Revenue generated from the sales of the Group's telecommunications software systems, services and other products increased mainly as a result of increased sales of the Group's video and network terminals as well as monitoring equipment.

### COST OF SALES AND GROSS PROFIT

The following tables set out (1) the cost of sales of the Group and cost of sales as a percentage of total sales revenue and (2) the Group's gross profit and gross profit margin for the periods indicated:

Unit: RMB in millions

Product segment	2007		2006	
	Cost of sales	As a percentage of revenue from the product segment	Cost of sales	As a percentage of revenue from the product segment
Wireless communications systems	8,379.9	56.4%	5,276.6	57.4%
Wireline switch and access systems	777.1	57.6%	1,361.5	59.7%
Optical and data communications systems	4,467.8	70.2%	2,959.8	76.4%
Handset	5,985.9	78.3%	3,364.5	74.4%
Telecommunication software systems, services and other products	3,804.3	83.3%	2,403.5	71.7%
<b>Total</b>	<b>23,415.0</b>	<b>67.3%</b>	<b>15,365.9</b>	<b>66.2%</b>

Unit: RMB in millions

Product segment	2007		2006	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Wireless communications systems	6,471.6	43.6%	3,910.3	42.6%
Wireline switch and access systems	573.0	42.4%	917.9	40.3%
Optical and data communications systems	1,898.1	29.8%	914.8	23.6%
Handset	1,659.2	21.7%	1,155.0	25.6%
Telecommunication software systems, services and other products	760.3	16.7%	950.6	28.3%
<b>Total</b>	<b>11,362.2</b>	<b>32.7%</b>	<b>7,848.7</b>	<b>33.8%</b>

Cost of sales of the Group of 2007 increased 52.4% as compared to last year to RMB23,415.0 million. The Group's overall gross profit margin was 32.7%, 1.1 percentage points down from 33.8% last year, primarily as a result of lower gross profit margin for handsets, telecommunications software systems, services and other products, although the decline was partially offset by improved gross profit margin of wireless communications, wireline switch and access and optical and data communication products.

Cost of sales for the Group's wireless communications systems increased by 58.8% to RMB8,379.9 million, while the segment's gross profit margin was 43.6% compared to 42.6% last year. The improved gross profit margin for wireless communications systems mainly reflected increased weighting of CDMA systems and TD-SCDMA systems which commanded higher gross profit margin.

Cost of sales for the Group's wireline switch and access products amounted to RMB777.1 million, reducing by 42.9% compared to last year. Gross profit margin for the Group's wireline switch and access segment rose to 42.4% from 40.3% last year, mainly as a result of reducing costs for the product.

Cost of sales for the Group's optical and data communications products amounted to RMB4,467.8 million, increasing by 50.9% compared to last year. The increase in gross profit margin for the Group's optical and data communications segment to 29.8% from 23.6% for last year was attributable mainly to the improved gross profit margin for optical communications systems and DSL products.

Cost of sales for the Group's handset products amounted to RMB5,985.9 million, increasing by 77.9% compared to last year. Gross profit margin for the Group's handsets segment was lower at 21.7% as compared to 25.6% last year mainly in tandem with lower gross profit margin for CDMA handsets, although such decline was partially offset by gross profit margin improvements in the international sales of 3G handsets and domestic sales of GSM handsets.

Cost of sales for the Group's telecommunications software systems, services and other products amounted to RMB3,804.3 million, increasing by 58.3% compared to last year, with a gross profit margin of 16.7%, compared to 28.3% for last year. The decline in gross profit margin for the segment reflected primarily increased sales of lower margin network terminal and other products combined with decreased sales of higher margin products, as a percentage of total sales revenue for the segment.

#### **OTHER INCOME AND REVENUE**

Other income and revenue of the Group for 2007 amounted to RMB1,028.0 million, representing a 41.9% growth compared to RMB724.7 million for 2006. The increase reflected primarily growth in VAT rebates for software products.

#### **RESEARCH AND DEVELOPMENT COSTS**

The Group's research and development costs for 2007 increased by 13.3% to RMB3,210.4 million from RMB2,832.7 million for 2006, but decreased from 12.2% to 9.2% as a percentage of sales revenue. The decrease as a percentage of sales revenue despite growth in gross amount was attributable mainly to economies of scale and the partial capitalisation of research and development expenditure.

#### **SELLING AND DISTRIBUTION COSTS**

The Group's selling and distribution costs for 2007 increased by 38.4% to RMB4,531.5 million from RMB3,274.7 million for 2006, but decreased from 14.1% to 13.0% as a percentage of sales revenue. The decrease as a percentage of sales revenue despite growth in gross amount was attributable mainly to economies of scale.

#### **ADMINISTRATIVE EXPENSES**

Administrative expenses of the Group for 2007 increased by 56.5% to RMB1,718.2 million, as compared to RMB1,097.6 million for 2006, but were little changed as a percentage of sales revenue at 4.9%, compared to 4.7% for 2006.

#### **OTHER EXPENSES**

The Group recorded other operating expenses of RMB898.2 million for 2007, increasing by 369.0% as compared to RMB191.5 million for 2006. This was primarily the result of an increase in the Group's bad debt provision.

### Profit from operating activities

The Group's profit from operating activities for 2007 increased by 72.6% to RMB2,031.9 million from RMB1,176.9 million for 2006, while the operating profit margin grew from 5.1% for 2006 to 5.8% for 2007, primarily as a result of expanded business scale coupled with reduced research and development costs and selling expenses as a percentage of sales revenue.

### Finance costs

Finance costs of the Group for 2007 increased by 113.6% to RMB328.3 million from RMB153.7 million for 2006 primarily as a result of increased amounts in interest-bearing bank borrowings.

### Tax

The Group's income tax expense for 2007 was RMB276.2 million, a 117.3% rise compared to RMB127.1 million for 2006, which was mainly the result of 67.6% increase in the Group's pre-tax profit for 2007 coupled with a higher effective tax rate of 16.0% (2006: 12.3%) owing to increased effective tax liabilities of the Group's overseas business.

### Profit attributable to minority interests

The Group's minority interests for 2007 amounted to RMB199.3 million, representing a 45.9% growth as compared to RMB136.6 million for 2006. Minority interests decreased from 15.1% in 2006 to 13.7% in 2007 as a percentage of profit before minority interests. The decrease mainly reflected reduced profit contributions from subsidiaries with a higher level of minority interests.

### Gearing ratio and the basis of calculation

The Group's gearing ratio for 2007 was 33.5%, up 14.7 percentage points from 18.8% in 2006, attributable mainly to the increase in interest-bearing loans. The gearing ratio represented total interest bearing loans as a percentage of total capital.

### Liquidity and capital resources

In 2007, the Group's development funds were financed mainly by cash generated from its operations and bank loans. The Group's cash requirements related primarily to production and operating activities, repayment of due liabilities, capital expenditure, interest and dividend payments and other unforeseeable cash requirements.

Cash and cash equivalents of the Group as of 31 December 2007 amounted to RMB6,309.7 million.

### Cash flow data

Unit: RMB in millions

	2007	2006
Net cash outflow from operating activities	(552.1)	(2,106.3)
Net cash outflow from investing activities	(1,655.7)	(1,115.2)
Net cash inflow from financing activities	4,366.8	1,975.6
Net increase/(decrease) in cash and cash equivalents	2,159.1	(1,245.9)
Cash and cash equivalents at year-end	6,309.7	4,142.1

### Operating activities

The Group had a net cash outflow from operating activities of RMB552.1 million for 2007 compared to a net cash outflow of RMB2,106.3 million for 2006, driven by a year-on-year increase of approximately RMB12,477.7 million in cash inflow reflecting mainly increased sales revenue complemented by stronger efforts in cash collection and an increase in cash inflow from tax rebates of approximately RMB1,244.8 million. On the other hand, cash outflow used in purchases increased by only RMB6,997.8 million as a result of enhanced suppliers' financing and the adoption of bills payable. Research and development and marketing investments increased by approximately RMB3,428.2 million. Payments made to or on behalf of employees increased by RMB1,264.3 million, while tax payments increased by RMB464.2 million. In 2007, the Group's receivables turnover rate was 4.2 compared to 3.7 in 2006. Inventory turnover rate was 6.0 compared to 6.5 in 2006. Payables turnover rate was 2.5 compared to 2.3 in 2006.

### Investing activities

The net cash outflow from the Group's investment activities for 2007 was RMB1,655.7 million compared to a net cash outflow of RMB1,115.2 million for 2006. The cash outlay was mainly used for the acquisition of machinery and equipment, testing apparatus and additional office equipment, as well as in the construction of the ZTE Industrial Park in Shenzhen and research and development centers in Nanjing and Shanghai.

### Financing activities

The Group's a net cash inflow from financing activities for 2007 was RMB4,366.8 million (2006: RMB1,975.6 million) which mainly reflected a net increase of RMB3,863.7 million in new loans.

### Capital expenditure

The following table sets out the Group's capital expenditure for the periods indicated. The following capital expenditure was funded by long-term bank loans, cash generated from operating activities and government grants.

Unit: RMB in millions

Capital expenditure	2007	2006
Purchases of fixed assets and additions to construction in progress	1,494.3	1,135.7

The Group's capital expenditure in 2007 amounting to RMB1,494.3 million was mainly used to complete the construction of the ZTE research and development center in Shenzhen and purchase other equipment and facilities.

### INDEBTEDNESS

Unit: RMB in millions

Items	As at 31 December	
	2007	2006
Secured bank loans	866.4	394.7
Unsecured bank loans	5,622.2	2,230.2



Unit: RMB in millions

Items	As at 31 December	
	2007	2006
Short-term bank loans	4,403.4	945.7
Long-term bank loans	2,085.2	1,679.2

Credit facilities available to the Group included long-term and short-term bank loans, which were mainly used as working capital. Of the Group's long-term loans, RMB loans were subject to fixed interest rates while USD loans were subject to floating interest rates. To control the risk associated with RMB appreciation, the Group's borrowings were mainly denominated in US dollars, apart from certain RMB loans.

The Group's bank loans in 2007 increased mainly as a result of the borrowing of bank loans to provide additional working capital.

### CONTRACTUAL OBLIGATIONS

Unit: RMB in millions

Items	As at 31 December 2007			
	Total	Less than one year	Two to five years	More than five years
Bank loans	6,488.6	4,403.4	1,625.0	460.2
Operating lease obligations	393	183.5	207.2	2.4

### CONTINGENT LIABILITIES

Unit: RMB in millions

Items	As at 31 December	
	2007	2006
Factored trade receivables	—	107.2
Guarantees given to banks in respect of performance bonds	5,093.5	5,200.6
Total	5,093.5	5,307.8

### CAPITAL COMMITMENTS

The Group had the following capital commitments as of the dates indicated:

Unit: RMB in millions

Items	As at 31 December	
	2007	2006
Land and buildings:		
Contracted, but not provided for	582.3	796.0
Investment in an associate:		
Contracted, but not provided for	255.2	80.3

## **DETAILS OF THE SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES OF THE GROUP**

Details of the subsidiaries, jointly-controlled entities and associates of the Group as at 31 December 2007 are set out in notes 18, 19 and 20 to the financial statements prepared in accordance with HKFRSs.

## **PROSPECTS FOR NEW BUSINESS**

Details of the prospects for new business of the Group are set out in the section headed “Business outlook for 2008” in the Annual Report.

## **EMPLOYEES**

Details of the number of employees, remuneration, remuneration policy, bonus and training programs of the Group as at 31 December 2007 are set out in the sections headed “Directors, Supervisors, Senior Management and Employees” and “Corporate Governance Structure” in the Annual Report.

## **CHARGES ON ASSETS**

Details of charges on the Group’s assets as at 31 December 2007 are set out in note 33 to the financial statements prepared under HKFRSs.

## **PLANS FOR MATERIAL INVESTMENTS OR ACQUISITION OF CAPITAL ASSETS**

Details of the Group’s material investments and their performance and prospects as at 31 December 2007 are set out section headed “Report of the Board of Directors” in the Annual Report.

Details of plans for material investments or acquisition of capital assets are set out section headed “Report of the Board of Directors” in the Annual Report.

## **MARKET RISKS**

### **Interest rate risks:**

The interest rate risk of the Group was mainly associated with the Company’s interest bearing long term liabilities. The Group controlled its interest rate risk mainly by rescheduling the maturity period of its debts.

### **Foreign Exchange risks:**

The foreign exchange risk of the Group arose mainly from exchange differences in the conversion to RMB (the functional currency of the Group) of sales and purchases settled in currencies other than RMB. The Group endeavoured to include terms relating to exchange risk aversion or sharing when entering into purchase and sales contracts and sought to enhance its internal management standards by actively managing its foreign exchange position and matching currencies and amounts received or incurred. Where matching was not practicable, derivative products such as foreign exchange forward contracts were employed to lock up exchange rates in varying proportions based on the maturity profile of the outstanding foreign exchange positions, so as to minimise the impact of exchange rate fluctuations on the principal business of the Group. With a strong emphasis on the research of exchange risk management policies, models and strategies, the Group has formulated a foreign exchange risk management policy that takes into account the business characteristics of the Company and international standards in risk management with ongoing improvements and has gained considerable experience in the conduct of exchange risk management through the extensive use of exchange-related derivative products.

# REPORT OF THE SUPERVISORY COMMITTEE

## (I) SUPERVISORY COMMITTEE MEETINGS

The Supervisory Committee held seven meetings in 2007, details of which are as follows:

1. The twelfth meeting of the third session of the Supervisory Committee of the Company was held on 26 January 2007. The Supervisory Committee considered and approved the “Summary Report on the Work of the Third Session of the Supervisory Committee”, “Resolution on the Re-election of the Supervisory Committee and Nomination of Candidates for the Shareholders’ Representative Supervisors” and “Resolution on the Adjustment of Directors’ Allowances”. The announcement of the resolutions of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News on 29 January 2007.
2. The first meeting of the fourth session of the Supervisory Committee of the Company was held on 30 March 2007. The Supervisory Committee considered and approved the “Resolution on the Election of the Chairman of the Fourth Session of the Supervisory Committee”. The announcement of the resolutions of the Supervisory Committee was published in China Securities Journal, Securities Times, and Shanghai Securities News on 2 April 2007.
3. The second meeting of the fourth session of the Supervisory Committee of the Company was held on 18 April 2007. The Supervisory Committee considered and approved the “2006 report on the work of the Supervisory Committee”, “Full Text and Summary of the 2006 Annual Report and the Results Announcement of the Company”, “the Final Financial Accounts of the Company for 2006”, “Profit Distribution Plan of the Company for 2006”, “Resolutions with respect to the Proposed Application by the Company for Composite Credit Facilities for 2007”, “Resolutions regarding Connected Transactions of the Company in connection with the Lease of Properties”, “Resolution on Determining the Audit Fees of the PRC Auditors and the Hong Kong Auditors of the Company for 2006”, “Resolution on the Appointment of the PRC Auditors and the Hong Kong Auditors of the Company for 2007” and “Resolution on the Implementation of New Enterprise Accounting Standards by the Company”.

The announcement of the resolutions of the Supervisory Committee was published in China Securities Journal, Securities Times, and Shanghai Securities News on 19 April 2007.

4. The third meeting of the fourth session of the Supervisory Committee of the Company was held on 16 August 2007. The Supervisory Committee considered and approved the “Full Text and Summary of the 2007 Interim Report and the Results Announcement of the Company”, “2007 Interim Financial Analysis Report”, “Resolutions of the Company with respect to the Supplementary Application for Composite Credit Facilities”, “Resolution of the Company on the Provision of Guarantee for Subsidiary Congo-Chine Telecom S.A.R.L.”, “Resolution of the Company on the Proposals for the Offering and Issue of the Bonds cum Warrants”, “Resolution of the Company on the Feasibility of Investment Projects to be funded by the proceeds from the Offer” and “Resolution of Report of the Board on the Use of the Proceeds Raised in the Previous Fund Raising Exercise”. The announcement of the resolutions of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News on 17 August 2007.
5. The fourth meeting of the fourth session of the Supervisory Committee of the Company was held on 26 September 2007. The Supervisory Committee considered and approved the “Resolution of the Company for the Continued Purchase of Liability Insurance for Directors, Supervisors and Senior Management” and “Resolution of the Company for the Proposed Supplementary Agreement to Purchase Framework Agreement for 2007 Between Subsidiary ZTE Kangxun Telecom Company, Limited and Connected Party Mobei Antenna Technologies (Shenzhen) Co., Ltd. The announcement of the resolutions of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News on 27 September 2007.

6. The fifth meeting of the fourth session of the Supervisory Committee of the Company was held on 25 October 2007. The Supervisory Committee considered and approved the “2007 Third Quarterly Report of the Company”, “Resolution on the Formation of Joint Venture Company 中興能源（北京）有限責任公司”. The announcement of the resolutions of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News on 26 October 2007.
7. The sixth meeting of the fourth session of the Supervisory Committee of the Company was held on 25 December 2007. The Supervisory Committee considered and approved the “Resolution of the Company on the Provision of Guarantee in respect of Bank Credit Facilities Granted to Wholly-owned Subsidiary ZTE (H.K.) Limited”. The announcement of the resolutions of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News on 26 December 2007.

**(II) THE SUPERVISORY COMMITTEE HAS FURNISHED ITS OPINION ON THE COMPANY’S CONDITION IN 2007 AS FOLLOWS:**

1. The Company has established a proper internal control system with proper documentation such as the Articles of Association, the Rules of Procedure for Shareholders’ General Meetings, the Rules of Procedure for Board of Directors’ Meetings and the Rules of Procedure for Supervisory Committee Meetings, the Company’s management systems have been in good order. The decision-making process of the Company has been in compliance with the relevant requirements of the Company Law of the People’s Republic of China and the Articles of Association of the Company. The procedures, proposed resolutions and implementation of resolutions of the general meetings and meetings of the Board of Directors have also been in compliance with relevant provisions of the laws, regulations and the Articles of Association. Obligations of information disclosure have been duly performed.
2. The Directors and the management diligently have performed their duties, abided by the laws and carefully executed all resolutions of the shareholders’ general meetings and meetings of the Board of Directors. They have not violated any laws, regulations and the Articles of Association in exercising their duties, nor have they acted against the Company and its shareholders’ interests.
3. The preparation and review processes for the full text and summary of the 2007 annual report of the Company have been in compliance with provisions of the laws and regulations and the Articles of Association. The contents and format of the full text and summary of the 2007 annual report of the Company are in compliance with various requirements of regulatory authorities including the China Securities Regulatory Commission, Shenzhen Stock Exchange and the Stock Exchange of Hong Kong Limited. The 2007 financial report of the Company gives a true and accurate view of the financial position, and operating results of the Company for the year 2007.
4. The Supervisory Committee has confirmed following due inspection that the latest application of issue proceeds by the Company has been in compliance with provisions of relevant laws and regulations.
5. All connected party transactions entered into by the Company and its related parties have been conducted on an arm’s length basis without infringing the interests of the Company and its shareholders.

# MATERIAL MATTERS

## (I) MATERIAL LITIGATION OR ARBITRATION

During the year, the Group had no material litigation or arbitration. Progress during the year of litigation and arbitration proceedings occurring prior to the reporting period and other litigation and arbitration during the year were as follows:

1. In November 2005, Beijing Success Communications and Electronic Engineering Co., Ltd. instituted litigation against the Company's subsidiary Yangzhou Zhongxing Mobile Telecom Equipment Co., Ltd. ("Yangzhou Zhongxing"), and the Company to demand an indemnity of RMB71 million, comprising the refund of an advanced payment of RMB35 million and compensation for interests and other losses amounting to RMB36 million.

The court in charge of the first trial filed a written request for instructions to the Supreme People's Court after two sessions of court hearing for the first trial. The case is now pending judgement. As the case is currently under trial, it is difficult at this stage to predict the final outcome of the litigation with any reasonable certainty. Based on the legal opinion furnished by the Company's lawyers, the Directors are of the opinion that the above litigation will not have any material adverse impact on the Group's current financial position.

2. Shenzhen Intermediate People's Court handed its judgement for the first trial of the litigation instituted by the Company against Fairchild Semiconductor Corporation in November 2006, ordering Fairchild Semiconductor Corporation to pay an indemnity of RMB65,733,478 to ZTE. Fairchild Semiconductor Corporation subsequently filed an appeal to the Guangdong Provincial People's High Court against the first trial judgement, and the Guangdong Provincial People's High Court issued a civil mediation order which is now in effect. Pursuant to the mediation order, Fairchild Semiconductor Corporation has paid an amount of US\$3,950,000 to ZTE.
3. On December 2005, a supplier of the Company alleged that the Company had breached the supply contract and infringed its intellectual property and claimed indemnity for a total amount of US\$36.45 million (approximately RMB266.253 million) by instituting overseas arbitration.

As at the date of publication of this report, lawyers of both parties have submitted evidence to the arbitration authority and preliminary negotiations have been conducted. As the arbitration authority has yet to issue an award, it is difficult at this stage to predict the final outcome of the arbitration with any certainty. Based on the legal opinion furnished by the Company's lawyers, the Directors are of the opinion that the above case will not have any material adverse impact on the Group's current financial position.

4. In August 2005, an Indian consultant firm issued an arbitration notice to the Company to claim indemnity for a total amount of approximately US\$1,714,000 (approximately RMB12,520,000) in respect of advisory fees, agency fees and related damages. The consultant firm subsequently raised its total claim amount to approximately US\$2,143,000 (approximately RMB15,654,000).

As at the date of this annual report, the arbitration authority has not commenced hearing or issued any award, and it is difficult at this stage to predict the final outcome of the arbitration with any certainty. Based on the legal opinion furnished by the Company's lawyers, the Directors are of the opinion that the above case will not have any material adverse impact on the Group's current financial position.

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

Following negotiations between the Group and the Rawalpindi Collectorate held in June 2007, the Rawalpindi Collectorate agreed that the fine might be exempted if the Pakistanis Subsidiary made a remedial tax payment of Rs.177 million (approximately RMB22 million) before 30 June 2007. Such payment had been made by the Pakistanis Subsidiary before 30 June 2007. Subsequently, the Rawalpindi Collectorate issued a notice to the Pakistanis Subsidiary demanding the payment of an addition tax amount of approximately Rs.62 million (approximately RMB7 million). Based on the legal opinion on the dispute furnished by the lawyer engaged by the Company, the Directors were of the view that the Group had sufficient documentary evidence to defend itself against such payment. This matter would not have any material adverse impact on the Group's current financial position and operating results.

6. In August 2006, a certain customer instituted arbitration against the Company and demanded indemnity in the amount of approximately US\$10 million. The sole arbitrator of the case issued an award in February 2008 for an indemnity of approximately US\$5,300,000 payable by the Company.

Pursuant to local laws, the Company has the right to file a dissent to local district courts against any arbitration award issued by an arbitrator. Upon receipt of the dissent, the court may either (1) request the arbitrator to re-investigate the case; (2) commence court proceedings and require the arbitrator to explain any overlooked factual and legal issues; (3) turn down the dissent. If the district court turns down the dissent, the Company has the right to appeal to the higher court. If the higher court also rules in favor of the counterparty, the Company has the right to appeal to the supreme court.

It is difficult at this stage to predict the final outcome of the arbitration.

7. The Company received a temporary restraining order issued by the Supreme Court of the Philippines (the "Court") on 11 September 2007. This temporary restraining order was made in response to a litigation claim filed to the Court by a natural person in respect of the Contract for the Supply of Equipment and Services for the National Broadband Network Project of the Philippines Government (the "Contract") between the Company and the Department of Transportation and Communications of the Philippines demanding the annulment of the Contract and the issue of such temporary restraining order. Pursuant to the temporary restraining order, the Court has prohibited the implementation of the Contract by any parties pending its further decisions. For details, please refer to the Company's "Announcement on Material Matters" dated 15 September 2007.

ZTE filed a defense to the Court in respect of the aforesaid case in October 2007 and is currently awaiting further instructions from the Court. In October 2007, meanwhile, the Court notified the Company in writing that the above case will be jointly tried with another case filed by another natural person also in respect of the Contract, but the Company has not yet received any copy of the bill of indictment for this new case.

Based on the legal opinion furnished by lawyers engaged by the Company, the Directors of the Company are of the view that the aforesaid litigation will not have any material adverse impact on the ordinary business and financial conditions of the Group, on the grounds that the Contract has not yet taken effect and that the aforesaid claim has merely demanded for the termination of the Contract but not any indemnities.

The Company will make timely announcements on any substantial progress of the aforesaid arbitration and litigation.



(II) DURING THE REPORTING PERIOD, THERE ARE NO RELEVANT EVENTS OF BANKRUPTCY AND REORGANIZATION.

(III) DURING THE REPORTING PERIOD, THE COMPANY DID NOT HAVE INTEREST IN EQUITY OF LISTED COMPANIES AND OF FINANCIAL ENTERPRISES SUCH AS SUBSIDIARY COMMERCIAL BANKS, SECURITIES COMPANIES, INSURANCE COMPANIES, TRUST COMPANIES AND OPTION SECURITIES COMPANIES. DURING THE REPORTING PERIOD, THE DEALINGS IN SHARES OF OTHER LISTED COMPANIES BY SUBSIDIARIES OF THE COMPANY ARE AS FOLLOWS:

Dealings	Name of stock	Number of shares held at the beginning of the period	Number of shares bought/sold during the reporting period	Number of shares held at the end of the period	Amounts invested	Investment gain
Bought	China Life Insurance	0	79,000	0	RMB1,490,000	—
	Gem-year Industrial	0	45,000	0	RMB190,000	—
	Industrial Bank	0	22,000	0	RMB350,000	—
Sold	China Communications Services <sup>1</sup>	7,374,000	7,374,000	0	HK\$16,220,000	HK\$4,970,000
	China Life Insurance <sup>2</sup>	0	79,000	0	—	RMB1,600,000
	Gem-year Industrial <sup>2</sup>	0	45,000	0	—	RMB190,000
	Industrial Bank <sup>2</sup>	0	22,000	0	—	RMB170,000

Note 1: ZTE HK, a wholly-owned subsidiary of the Company subscribed for 17,674,000 H shares in China Communications Services Company Limited ("China Communications Services", stock code: 0552) under China Communications Services's global offering of H shares for listing on the main board of the Stock Exchange of Hong Kong at a price of HK\$2.20 per share for a total subscription amount of HK\$38,880,000 (excluding related brokerage, SFC transaction levy and Stock Exchange trading fee). The number of shares subscribed accounted for approximately 0.32% of the issued share capital of China Communications Services.

ZTE HK disposed of all the H shares in China Communications Services held at the end of January 2007 and recorded a net gain of approximately HK\$44,510,000. Gains realised for the reporting period amounted to HK\$4,970,000.

Note 2: During the reporting period, majority-owned subsidiary 南京中興軟創科技有限公司 subscribed for new shares in an IPO, which were subsequently disposed of in full to realise an investment gain of RMB1,960,000. As at the end of the reporting period, 南京中興軟創科技有限公司 did not hold any equity interests in any listed companies.

**(IV) THERE WERE NO ACQUISITION OR DISPOSAL OF ASSETS OR MERGERS OF THE GROUP TAKING PLACE DURING THE REPORTING PERIOD OR HAD TAKEN PLACE IN PREVIOUS PERIODS AND SUBSISTED IN THE REPORTING PERIOD.**

**(V) INFORMATION ON THE PHASE I SHARE INCENTIVE SCHEME OF THE COMPANY**

**1. Updates on Phase I Share Incentive Scheme during the reporting period**

The Phase I Share Incentive Scheme of the Company was formulated by the Remuneration and Evaluation Committee of the Board of Directors of the Company to establish a long-term incentive mechanism closely linked with the Company's business performance and long-term strategy, so as to help optimise the overall remuneration structure and create a competitive advantage in human resources that will contribute to the long-term, sustainable growth of the Company's operation. Phase I of the Share Incentive Scheme (Draft) was approved at the nineteenth meeting of the third session of the Board of Directors of the Company on 25 October 2006. Thereafter the Company submitted Phase I of the Share Incentive Scheme (Draft) to the State owned Assets Management Commission under the State Council and CSRC for approval in accordance with relevant State regulations. The Remuneration and Evaluation Committee thereafter revised the scheme according to the comments of relevant regulatory authorities, and Phase I of the Share Incentive Scheme (Revised Version) was approved at the twentieth meeting of the third session of the Board of Directors of the Company on 15 December 2006. To further improve Phase I of the Share Incentive Scheme, the Company further revised Phase I of the Share Incentive Scheme (Revised Version). A no comment letter was issued by CSRC with respect to the Phase I of the Share Incentive Scheme (Version Dated 5 February 2007), which was then approved at the First Extraordinary General Meeting of the Company for 2007 on 13 March 2007.

Phase I of the Share Incentive Scheme (Version Dated 5 February 2007) of the Company was published on the designated website for information disclosure on 14 February 2007.

Relevant Scheme Participants of the Phase I Share Incentive Scheme paid subscription amounts for their Subject Shares between 14 March 2007 and 18 March 2007, which will be used as additional working capital for the Company.

**2. For details of the effect of Phase I Share Incentive Scheme of the Company on reporting period and future financial position and operational results of the Company, please refer to Item 21 of Note III to the financial statements prepared in accordance with PRC GAAP and Note 39 to the financial statements prepared in accordance with HKFRS.**

**(VI) INFORMATION ON OFFERING AND ISSUE OF THE BONDS CUM WARRANTS OF THE COMPANY**

"Resolution of the Company on the proposals for the offering and issue of the Bonds cum Warrants" was considered and approved at the seventh meeting of the fourth session of the Board of Directors of the Company convened on 16 August 2007. The resolution was considered and approved at the third extraordinary general meeting of the Company for 2007 convened on 16 October 2007. For details, please refer to the Announcement in respect of resolutions of the third extraordinary general meeting for 2007 of the Company published on 17 October 2007.

With the approval of China Securities Regulatory Commission by virtue of the document Zheng Jian Xu Ke [2008] No. 132, the Company issued 40,000,000 bonds with warrants ("Bonds cum Warrants") amounting to RMB4 billion in total on 30 January 2008. The bonds with warrants are guaranteed by China Development Bank for an amount of RMB4 billion in respect of bond principal and interest, default payments, indemnities and expenses for exercising the bonds.

The bonds have a nominal value of RMB100 each and a total issue amount of RMB4 billion. The coupon interest rate of the bonds cum warrants is 0.8% per annum, accruable from the issue date (30 January 2008).

The first interest payment date of the bonds will fall on the first anniversary of the issue date (30 January 2009) and thereafter on 30 January of each year. The maturity of the bonds is 30 January 2013.

Holder of the Bonds have also been issued 1.63 Warrants for every Bond issued to them and therefore a total of 65,200,000 Warrants have been issued. The warrants are valid for 24 months from the date of listing, i.e. from 22 February 2008 to 21 February 2010. Warrant holders may exercise the warrants within the last 10 trading days of the valid period, i.e. from 1 February to 12 February 2010 (as 13 February to 19 February 2010 may coincide with Chinese New Year holidays and 20 February and 21 February are both holidays, therefore the exercise period shall be from 1 February to 12 February 2010). The initial conversion ratio of the Warrants has been determined at 2:1 (numerical value 0.5), i.e., holders of the Warrants are entitled to subscribe for one A Share for every two Warrants held by them upon exercise of such Warrants. The initial exercise price of the Warrant carrying rights to subscribe for one A share issued by the Company is expected to be RMB78.13 per Share. The conversion ratio and exercise price of the Warrants are subject to adjustments pursuant to the relevant rules of the Shenzhen Stock Exchange.

Top ten bond holders as at 21 February 2008 were as follows:

No	Name of bond holder	Number of bonds held	Bond holding ratio (%)
1	CITIC Securities Co., Ltd.	1,963,750	4.91
2	Sunshine Property and Casualty Insurance Co., Ltd. Investment insurance product	1,026,130	2.57
3	China Life Insurance Company Limited – Dividend – Individual dividend – 005L FH002 Shen	897,887	2.24
4	Agricultural Bank of China Changsheng Tongde Focused Growth Stock Fund	881,995	2.20
5	Taikang Life Insurance Co., Ltd. – Investment Link – Personal insurance investment link	815,096	2.04
6	Orient Securities Company Limited	811,403	2.03
7	China Life Insurance Company Limited – Traditional – General Insurance Products – 005L CT001 Shen	775,790	1.94
8	China Minmetals Finance Co., Ltd. (五礦集團財務有限責任公司)	763,300	1.91
9	Taikang Life Insurance Co., Ltd. – Dividend – Group dividend – 019L FH001 Shen	761,447	1.90
10	CASC Finance Co., Ltd. (航天科技財務有限責任公司)	755,900	1.89
10	Guang Fa Securities Co., Ltd. (廣發證券股份有限公司)	755,900	1.89
10	ICBC-Boshi Tertiary Sector Growth Stock Fund	755,900	1.89
10	China Merchant Securities Co., Ltd.	755,900	1.89
10	China Life Insurance Company Limited – Dividend – Group dividend – 005L FH001 Shen	755,900	1.89
10	Taikang Life Insurance Co., Ltd. – Traditional – General Insurance Products – 019L CT001 Shen	755,900	1.89
10	Taikang Life Insurance Co., Ltd. – Dividend – Individual dividend – 019L FH002 Shen	755,900	1.89
10	BOC-AIG Huatai China Stock Open-ended Stock Fund	755,900	1.89
10	China Life Insurance Company Limited – Traditional – General Insurance Products	755,900	1.89
10	Guang Fa Securities (廣發證券) BankComm Guang Fa Pool Management Scheme (No. 3)	755,900	1.89
10	Taikang Life Insurance Co., Ltd. – All inclusive – All inclusive – personal insurance	755,900	1.89
10	Sino Life Insurance Co., Ltd. – Traditional – General Insurance Products	755,900	1.89
10	UBS	755,900	1.89
10	BOC-AIG Huatai Aggressive Growth Mixed Stock Fund	755,900	1.89

For details of the issue of bonds cum warrants and use of issue proceeds, please refer to the section “10 (1) Use of proceeds” in the “Report of the Board of Directors” of this annual report.

With the approval of Shenzhen Stock Exchange by virtue of Shen Zheng Shang [2008] No 31, bonds with a face value of RMB4 billion and 65,200,000 warrants from the issue of bonds cum warrants were listed on Shenzhen Stock Exchange on 22 February 2008 for trading.

## **(VII) SIGNIFICANT CONNECTED TRANSACTIONS OF THE GROUP**

### **1. Significant connected transactions of the Group during the year:**

#### **(1) Significant connected transactions under applicable laws and regulations of the PRC:**

##### *a.) Ongoing connected transactions*

During the year, ongoing connected transactions of the Group were as follows:

During the reporting period, ongoing connected transactions (as defined in the Rules Governing Listing of Stocks on Shenzhen Stock Exchange) of the Group included the purchase of raw materials from and property leasing to connected parties by the Company and its subsidiaries. Such connected transactions were conducted after arm's length negotiation on the basis of normal commercial terms. The prices at which the Group made purchases from the connected parties were not higher than the prices at which the connected parties sell similar products to other users in similar quantities. The prices at which properties were leased to the Group by connected parties were not higher than market rates for the lease of similar properties in neighbouring areas. In addition, such connected transactions would not have any adverse impact on the Group's profit. The Group is not dependent on the connected party and the connected transactions do not affect the independence of the Group.

Connected parties from which the Group made purchases was selected as long-term supplier of the Group because they were able to manufacture products required by the Group on a regular basis and provide quality products and services at competitive prices. The Group considers trustworthy and cooperative suppliers as very important and beneficial to the Group's operations.

Connected parties who leased properties to the Group were able to provide lease properties in sound conditions at competitive prices. The Group considers trustworthy and cooperative partner as very important and beneficial to the Group's operations.

Details of the implementation of the Group's ongoing connected transactions during the year are set out in the following table (for information on the connected parties, their connected relationships with the Group, basic terms of the connected transactions agreements between the Group and the connected parties, estimated transaction amounts for 2007 under each agreement, impact of the connected transactions on the Group and review of the connected transactions by the Board of Directors or the general meeting of the Company, please refer to the announcements on ongoing connected transactions published by the Company on 26 October 2006, 19 April 2007 and 27 September 2007 in China Securities Journal, Securities Times and Shanghai Securities News.

During the year, the total amount of ongoing connected transactions between the Company and connected parties Zhongxingxin and subsidiaries Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou was RMB705,681,400, which exceeded 5% of the Company's net assets based on its latest audited accounts. Details are as follows:

Classification	Member of the Group (party to connected transaction)	Connected person (counterparty to connected transaction)	Subject matter	Pricing basis	Transaction price	Amounts of connected transactions for January to December 2007	As a percentage of transactions in the same classification	Settlement	Whether different from estimated conditions
						(Excluding VAT)	(RMB10,000)		
Purchase of raw materials	ZTE Kangxun	Zhongxingxin and subsidiaries Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou	Various products such as cabinets, cases, distribution frames, soft circuit boards and shelters	Consistent with market prices (as per contract)	Cabinets: RMB2,000–RMB15,000 per unit; cases: RMB40–RMB4,000 per unit depending on level of sophistication; distribution frames and accessories: RMB2–RMB600 per unit depending on level of sophistication; Flexible printed and shelters circuit boards (FPC): Two-sided: RMB0.15–RMB0.18 per sq. m. One-sided: RMB0.1–RMB0.15 per sq. m.; Shelter: RMB30,000–RMB100,000 per unit, depending on measurement, materials used and configuration.	70,568.14	3.29%	Banker's acceptance bill	No
		Zhongxing WXT and subsidiary Shenzhen Gaodonghua Communication Technology Co., Ltd.	IC, connector, assemblies, optical devices, modules and other ancillary equipment	Consistent with market prices (as per contract)	IC (built-in): RMB100–RMB1,000 per unit depending on brand, capacity and technical parameters; plugs and connectors: RMB1–RMB50 per unit depending on the structure and raw materials; Optical components: RMB120–RMB17,500 per unit depending on materials performance	12,426.67	0.58%	Banker's acceptance bill	No
		Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Communications antennas and radio frequency transmission devices	Consistent with market prices (as per contract)	Communication antenna: RMB320–RMB2500 per piece depending on technical parameters and functional features; radio frequency transmitter: RMB350–RMB4100 per unit, depending on technical parameters and functional features.	24,090.00	1.12%	Banker's acceptance bill	No
Property leasing	ZTE Corporation	Zhongxingxin (lessor)	Property located at No. 800 Tianfu Avenue Central, Chengdu, Sichuan with a leased area of 15,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB40/sq. m. (ZTE will be responsible for property management and management fees are not payable)	438.14	1.13%	Banker's acceptance bill	No
		Zhongxingxin (lessor)	Property located at Jinye Road, Electronics City, Xi'an, Shaanxi with a leased area of 44,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB42.5/sq. m. (inclusive of RMB2.5/sq. m. as monthly management fees)	1,463.70	3.77%	Banker's acceptance bill	No
		Shenzhen Zhongxing Development Company Limited (lessor)	Property located at 19 Huayuan East Road, Haidian District, Beijing with a leased area of 25,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB115/sq. m. (ZTE will be responsible for property management and management fees are not payable)	2,141.76	5.52%	Banker's acceptance bill	No



Connected transactions involving sales of products or provision of labour services to the Zhongxingxin and its subsidiaries by the Company during the year amounted to RMB337,600.

- b) At the 9th meeting of the fourth Board of Directors held on 25 October 2007, it was considered and approved that Zhongxing Energy Limited (中興能源有限公司) would be established with a registered capital of RMB1,290,000,000 by the Company in joint venture with connected parties Zhongxing WXT, Zhongxing Development, Zhongxing International and Mr. Hou Weigui, Chairman of the Company. Zhongxing Energy Limited (中興能源有限公司) is principally engaged in the research and development, investment, generation and sale in the area of energy business. For further details, please refer to the “Announcement of Connected Transactions” and “Announcement of Progress of Connected Transactions” of the Company dated 26 October 2007 and 5 December 2007, respectively.

## **(2) Continuing connected transactions under the Hong Kong Stock Exchange Listing Rules:**

The Group has entered into connected transaction framework agreements with the following connected parties for the three years 2007-2009, and has fulfilled the requirements of reporting, announcement and shareholders' approval under Chapter 14A of the Listing Rules of the Stock Exchange of Hong Kong based on the estimated annual cap of each connected transaction in 2007-2009. For details, please refer to the Announcement on Continuous Connected Transactions and Announcement on the Resolutions of the First Extraordinary General Meeting for 2007 published in The Standard and Hong Kong Economic Times on 2 November 2006 and 13 March 2007.

### **a) Sales of products by Kangquan, Lead and Hongde to Ruide**

- **Description of the connected relationship between the parties to the transaction:**

Kangquan was established on 2 June 2003 under the laws of the PRC with limited liability. The Company holds a 57.5% interest in the capital of Kangquan through Changfei, the Company's subsidiary in which the Company holds a 51% interest. Hongde was established on 21 January 2005 under the laws of the PRC with limited liability. Changfei holds a 50% interest in the capital of Hongde and the Company's other subsidiary Ruide holds a 25% interest in the capital of Hongde. Therefore, the Company indirectly holds more than 50% of the voting shares of Hongde through Changfei and Ruide.

Kangquan, Lead and Hongde are all non-wholly owned subsidiaries of the Company and are part of the Group pursuant to the Hong Kong Listing Rules.

Ruide is a non-wholly owned subsidiary of the Company established on 27 April 2004 under the laws of the PRC with limited liability. Changfei, holds a 57.5% interest in Ruide and ZTEIC Design Co. Limited, in which the Company holds a 40% interest, holds a 5.8% interest in Ruide. The other substantial shareholder of Ruide is Zhongxing Xindi with approximately a 23% interest. The remaining approximately 13.8% interest in Ruide is held by an individual shareholder who is a director of Ruide. As Zhongxingxin was the controlling shareholder and a promoter of the Company, as an associate of Zhongxingxin, Zhongxing Xindi is a connected person at the level of the Company (but not the subsidiary of the Company). As Zhongxing Xindi was the substantial shareholder of Ruide, Ruide is therefore a connected person of the Company under the Listing Rules of the Stock Exchange of Hong Kong.

- **Total transaction amount in 2007**

Approximately RMB25,655,000.

- Pricing and other terms:

At the meeting of the Board of Directors held on 25 October 2006, the Directors approved the 2007-2009 connected transaction framework agreement in respect of the continuous sales of cases and accessories for handset batteries, LCD and battery cores to Ruide by Kangquan, Lead and Hongde. The purchase framework agreement shall be effective until 31 December 2009.

As suppliers of Ruide, Kangquan, Lead and Hongde were selected through a bidding process under which each potential supplier was assessed on its qualification, product quality and price. The prices for such transactions were determined after arm's length negotiations with reference to the prices quoted by Kangquan, Lead and Hongde respectively for sales of similar quantities of the same or similar products to independent third parties at the relevant time.

- Purpose of the transaction:

Ruide is primarily engaged in the production and sale of handset batteries. Kangquan, Lead and Hongde are respectively engaged in the production and sale of cases and accessories for handset batteries, LCM and battery cores. As the Group considers that having reliable and co-operative suppliers is important and beneficial to it, purchasing from Kangquan, Lead and Hongde allows the Group to secure essential control over most of the components of its production by being able to ensure timely delivery of such components while maintaining product quality. Each of Kangquan, Lead and Hongde is consistently able to produce the quantity of products required by Ruide and provide quality products and services at competitive prices which were determined on the same basis as the prices of the products sold to independent third parties.

b) *Purchases of handset batteries by ZTE Kangxun from Ruide*

- Description of the connected relationship between the parties to the transaction:

The Company holds 90% stake in ZTE Kangxun:

As explained in paragraph a), Ruide is a connected person of the Company under the Listing Rules of Hong Kong Stock Exchange.

- Total transaction amount in 2007

Approximately RMB268,237,000.

- Pricing and other terms:

At the meeting of the Board of Directors held on 25 October 2006, the Directors approved the 2007-2009 connected transaction framework agreement in respect of the continuous purchase of handset batteries from Ruide by ZTE Kangxun. The purchase framework agreement shall be effective until 31 December 2009.

Ruide will still be required to undergo the Group's qualification and bidding procedures for the selection of suppliers. If Ruide succeeds in its bid to supply to ZTE Kangxun, ZTE Kangxun will issue purchase orders from time to time to Ruide pursuant to the framework agreement entered into with it. Purchase orders will specify product types, agreed quantities and prices, quality specifications, delivery times, places and modes, as well as contact details. Prices will be arrived at after arm's length negotiations, with reference to the prices quoted by Ruide for sales of similar quantities of the same or similar products to independent third parties at the relevant time.

- **Purpose of the transaction:**

The Group's handset products have become one of the major sources of revenue for the Company. The Directors of the Company consider it an important strategy to have a co-operative and reliable supplier for handset batteries. The Group's investment in Ruide was made with this purpose in mind. Through the Group's qualification and bidding procedures, Ruide was selected as one of our suppliers.

*c) Sales of liquid crystal displays (LCD) and electronic components by ZTE Kangxun to Lead.*

- **Description of the connected relationship between the parties to the transaction:**

Lead is a non-wholly owned subsidiary of the Company. The Company holds a 62.5% stake interest in the capital of Lead through Changfei. Zhongxingxin is a substantial shareholder of Lead with a 22.5% stake while an individual holds the remaining 15% stake. Given that Zhongxingxin is a connected person of the Group at the level of the Company (and not at the level of the Company's subsidiaries) and is a substantial shareholder of Lead, Lead itself constitutes a connected person of the Company under the Hong Kong Stock Exchange Listing Rules.

- **Total transaction amount for 2007:**

Approximately RMB422,000

- **Pricing and other terms:**

At the meeting of the Board of Directors held on 25 October 2006, the Directors approved the 2007-2009 connected transaction framework agreement in respect of the continuous sales of liquid crystal displays (LCD) and electronic components to Lead by ZTE Kangxun. The sales framework agreement shall be effective until 31 December 2009.

Pursuant to the framework agreement, lead is to issue purchase orders to ZTE Kangxun from time to time, specifying product types, agreed quantities and prices, quality specifications, delivery times, places and modes, as well as contact details. Prices will be arrived at after arm's length negotiations, with reference to the prices quoted by the Group for sales of similar quantities of the same or similar products to independent third parties at the relevant time.

- **Purpose of the transaction:**

The Group's handset products have become one of the major sources of revenue for the Company. Liquid crystal modules are required for the production of handsets and the Group does not produce such components. The production of liquid crystal modules involves the assembly of liquid crystal displays with various electronic components. As this involves merely low cost assembly work, the Directors of the Company consider it suitable for outsourcing the production of liquid crystal modules to Lead and other independent third parties. Lead was selected as our supplier through the Group's qualification and bidding procedures. As Lead does not produce the said components required for the production of liquid crystal modules, ZTE Kangxun (as the Group's principal platform for procurement) purchases liquid crystal displays and various electronic components from independent third party suppliers for onward supply to Lead. The Directors of the Company consider it to be convenient and cost effective to include Lead's requirements in ZTE Kangxun's procurements for such parts.

*d) Purchases of liquid crystal modules (LCM) by ZTE Kangxun from Lead*

- **Description of the connected relationship between the parties to the transaction:**

Lead is a connected person of the Group as its substantial shareholder, Zhongxingxin, is a connected person at the level of the Company (and not at the level of the subsidiaries of the Company). Please refer to the above for further details of Lead.

- **Total transaction amount for 2007:**

Approximately RMB325,268,000

- **Pricing and other terms:**

At the meeting of the Board of Directors held on 25 October 2006, the Directors approved the 2007-2009 connected transaction framework agreement in respect of the continuous purchase of liquid crystal modules (LCM) from Lead by ZTE Kangxun. The purchase framework agreement shall be effective until 31 December 2009.

Lead will still be required to undergo the Group's qualification and bidding procedures for the selection of suppliers. If Lead succeeds in its bid to supply to ZTE Kangxun, ZTE Kangxun will issue purchase orders from time to time to Lead pursuant to the framework agreement entered into with it. Purchase orders will specify product types, agreed quantities and prices, quality specifications, delivery times, places and modes, as well as contact details. Prices will be arrived at after arm's length negotiations, with reference to the prices quoted by Lead for sales of similar quantities of the same or similar products to independent third parties at the relevant time.

- **Purpose of the transaction:**

The Group's handset products have become one of the major sources of revenue for the Company. The Group requires steady, reliable and quality supplies of liquid crystal modules for the Group's handset products. As the production of these liquid crystal modules involves merely low value-added assembly work, there are few suppliers of raw materials and components that are able to undertake such large-scale production as required by the Group for the prices we offer. Lead was established to handle large scale production at low unit cost and to specialise in the supply of liquid crystal modules. The Group believes that it has also been able to provide us a fast production turnaround time, consistent product quality and timely delivery. The Group has now taken a majority stake in Lead as the Directors of the Company consider that having Lead as our subsidiary allows us to secure steady supplies of quality liquid crystal modules in large volumes from a co-operative, reliable and specialised supplier that would not otherwise be easily available from other suppliers for comparable prices.

e) *Purchases of raw materials and components comprising primarily telecommunications cabinets, cases and racks, distribution frames and shelters by ZTE Kangxun from Zhongxingxin, Zhongxing Xindi Zhongxing Xinyu and Zhongxing Xinzhou.*

- **Description of the connected relationship between the parties to the transaction:**

Zhongxingxin is the largest shareholder of the Company.

Given that Zhongxing Xindi is a non-wholly owned subsidiary of Zhongxingxin, Zhongxing Xindi is an associate of Zhongxingxin as defined under the provisions of the Hong Kong Stock Exchange Listing Rules. Zhongxingxin holds a 70% stake in Zhongxing Xindi. Given that Zhongxingxin is a controlling shareholder of the Company (and also one of the promoters of the Company), Zhongxing Xindi, as an associate of Zhongxingxin, constitutes a connected person of the Company.

Given that Zhongxing Xinyu is a non-wholly owned subsidiary of Zhongxingxin, Zhongxing Xinyu is an associate of Zhongxingxin as defined under the provisions of the Hong Kong Stock Exchange Listing Rules. Zhongxingxin holds a 55% stake in Zhongxing Xinyu. Given that Zhongxingxin is a controlling shareholder of the Company (and also one of the promoters of the Company), Zhongxing Xinyu, as an associate of Zhongxingxin, constitutes a connected person of the Company.

Given that Zhongxing Xinzhou is a non-wholly owned subsidiary of Zhongxingxin, Zhongxing Xinzhou is an associate of Zhongxingxin as defined under the provisions of the Hong Kong Stock Exchange Listing Rules. Zhongxingxin holds a 55% stake in Zhongxing Xinzhou. Given that Zhongxingxin is a controlling shareholder of the Company (and also one of the promoters of the Company), Zhongxing Xinzhou, as an associate of Zhongxingxin, constitutes a connected person of the Company.

- **Total transaction amount for 2007:**

Approximately RMB705,681,000

- **Pricing and other terms:**

At the meeting of the Board of Directors held on 25 October 2006, the Directors approved the 2007-2009 connected transaction framework agreement in respect of the purchase of raw materials and components by ZTE Kangxun from Zhongxingxin, Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou. The purchase framework agreement shall be effective until 31 December 2009.

Zhongxingxin and its relevant subsidiaries will each still be required to undergo the Group's qualification and bidding procedures for the selection of suppliers. If any one of them succeeds in its bid to supply to ZTE Kangxun, ZTE Kangxun will issue purchase orders from time to time to the successful bidder pursuant to the relevant framework agreement entered into with that bidder. Purchase orders will specify product types, agreed quantities and prices, quality specifications, delivery times, places and modes, as well as contact details. Prices will be arrived at after arm's length negotiations and on normal commercial terms.

- **Purpose of the transaction:**

Zhongxingxin, Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou were selected through the Group's qualification and bidding procedures, and the Group believes that they have consistently been able to meet the Group's stringent demands for fast product turnaround time, high product quality and timely delivery. By virtue of the foregoing, Zhongxingxin and Zhongxing Xindi were selected as the suppliers of distribution frames and packaging materials, Zhongxing Xinyu was selected as the supplier of flexible printed circuit boards and Zhongxing Xinzhou was selected as the supplier of shelters. As the Group considers that having reliable and cooperative suppliers is important and beneficial to us, purchasing from Zhongxingxin, Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou allows us to secure essential control over most of the components of our production by being able to ensure timely delivery of such components while maintaining product quality.

**2. The Independent Non-executive Directors of the Company have reviewed the connected transactions of the Group and confirmed that:**

- the transactions were conducted in the ordinary and usual course of business of the Company;
- the transactions were entered into on normal commercial terms; and
- the transactions were conducted in accordance with the terms of the agreements governing them and the terms of the transactions are fair and reasonable and in the interests of the shareholders of the Company as a whole.

**3. The auditors of the Company have reviewed the connected transactions and confirmed to the Board of Directors of the Company that the transactions:**

- were approved by the Board of Directors of the Company;
- were conducted in accordance with the pricing policies of the Company;
- were conducted in accordance with the terms of the agreements governing them; and

- within the relevant annual caps as agreed by the Hong Kong Stock Exchange.

#### (VIII) DEBTORS AND CREDITORS BETWEEN THE GROUP AND ITS CONNECTED PARTIES

Debtors and creditors between the Company and its connected parties during the year were incurred during the ordinary course of business and did not have any material impact on the Company. There were no guarantees for connected parties between the Company and its connected parties.

#### (IX) MATERIAL CONTRACTS OF THE GROUP

1. During the year, the Group did not put on trust, sub-contract, or lease any assets of other companies nor did other companies put on trust, sub-contract or lease any of the Company's assets of a material nature.

#### 2. Third-party guarantee by the Company

- (1) Third-party guarantees of the Group during the reporting period are set out as follows:

Third party guarantees provided by the Company (excluding guarantees in favour of subsidiaries)							
Guaranteed party	Date of incurrence (date of execution of relevant agreements)	Amounts guaranteed	Type of guarantee	Term	Whether fully performed	Whether provided in favour of connected parties (Yes/No)	
Djibouti Telecom S.A	8 September 2006	RMB50 million	Joint liability	12 years	No	No	
United Telecoms Limited (Note 1)	11 December 2006	73,923,700 Indian Rupee (approximately RMB13,690,000)	Assurance	3 years	No	No	
Benin Telecoms S.A. (Note 2)	28 June 2007	US\$3 million	Assurance	6.5 years	No	No	
Total amount guaranteed during the year				US\$3 million			
Total balance of amount guaranteed at the end of the year (A)				RMB85,604,500			
Guarantees provided in favour of subsidiaries							
Total amount guaranteed in favour of subsidiaries during the year (Note 2)						US\$11,405,500	
Total amount guaranteed among subsidiaries during the year						RMB27,105,000	
Total balance of amount guaranteed in favour of subsidiaries at the end of the year (B)						US\$11,523,100	
						RMB63,527,000	
Total amount guaranteed by the Company (including guarantees in favour of subsidiaries)							
Total guaranteed amount (A+B)						RMB211,389,100	
Total guaranteed amount as a percentage of net assets of the Company at the end of the year						1.74%	
of which:							
Amounts of guarantees provided in favour of shareholders, de facto controllers and their connected parties (C)						0	
Amount of debt guarantee provided directly or indirectly in favour of parties with a gearing ratio exceeding 70% (Note 3) (D)						US\$11,405,500	
Amount of total guarantee exceeding 50% of net assets (E)						0	
Aggregate amount of the three guarantee amounts stated above (C+D+E)						US\$11,405,500	



- Note 1: Guarantee in favour of United Telecoms Limited of India provided by ZTE (H.K.) Limited, a wholly-owned subsidiary of the Company, in the form of a bank-issued irrevocable standby letter of credit.
- Note 2: Guarantee provided by ZTE (H.K.) Limited, a wholly-owned subsidiary of the Company, in the form of a standby letter of credit backed by its bank credit facility, while the bank credit facility of ZTE (H.K.) Limited is guaranteed by the Company. In effect of the aforesaid two guarantees, ZTE is the ultimate guarantor and Benin Telecoms is the ultimate party being guaranteed, for an amount of US\$3 million. As the gearing ratio of Benin Telecoms was in excess of 70%, the aforesaid guarantee was subject to consideration and approval by the Board of Directors and the general meeting of the Company in accordance with requirements of relevant laws and regulations.
- Note 3: In addition to guarantees described in Note 2, the Company provided a guarantee in respect of a bank loan extended to subsidiary Congo-Chine Telecom S.A.R.L. by pledging its 51% equity interests in Congo-Chine Telecom S.A.R.L. As the gearing ratio of Congo-Chine exceeded 70%, the said guarantee was subject to consideration and approval by the Board of Directors and the general meeting of the Company in accordance with requirements of relevant laws and regulations.
- Note 4: Guaranteed amounts denominated in Indian Rupee are translated at the exchange rate of 1 Indian Rupee to RMB0.1852 (being the exchange rate published by the People's Bank of China on 28 December 2007). Guaranteed amounts denominated in US dollars are translated at the exchange rate of US\$1 to RMB7.3046 (being the exchange rate published by the People's Bank of China on 28 December 2007).
- Note 5: All third party guarantees of the Company shall be submitted to the Board of Directors for its review and shall require the approval of two-thirds of the members of the Board. If such third party guarantees are otherwise subject to review and approval at the general meeting, then they shall be tabled at the general meeting following approval by the Board of Directors.

(2) Progress of previously granted guarantees during the reporting period

In January 2005, the Company performed its guarantee to make a repayment of RMB3.50 million on behalf of Chengdu Information Port Company Limited. As at the end of the reporting period, Juyou Industrial Group Limited, as counter-guarantor, had made a repayment of RMB1.75 million to the Company, and an amount of RMB1.75 million remained outstanding. The Group will continue to actively procure the settlement of the outstanding amount. (Please refer to the 2005 annual report of the Group for details of the guarantee).

**3. During the year, the Group did not have any entrusted investments.**

**4. Other material contracts**

Material contracts disclosed during the reporting period and their performance:

No	Contents of material contracts	Date of disclosure	Newspaper for publication	Performance
1	Framework agreement and business contracts thereunder with Ethiopian Telecommunications Corporation	30 April 2007	China Securities Journal, Securities Times,	Under normal progress
2	Commercial contract for the construction of trial network for TD-SCDMA scale network technology application with China Mobile	11 June 2007	Shanghai Securities News	
3	Amendment of the 2006-2007 Chip Purchase Framework Agreement signed in April 2006 with QUALCOMM			
4	GSM Phase II project contract with Ethiopian Telecommunications Corporation	20 September 2007		

**(X) UNDERTAKINGS****1. Undertaking in respect of Share Reform**

The statutory and special undertakings given by shareholders holding 5% or more of shares of the Company (i.e. Zhongxingxin) in connection with the A Share Reform are set out in note 1 of the section headed “Time for listing and trading of shares subject to lock-up held by Zhongxingxin” in “V. CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS” in this report.

The above undertakings had been properly fulfilled and there had been no circumstances of violations of such undertakings

**2. There were no other undertakings by the Company or shareholders interested in 5% or more of the shares in the Company.****(XI) ENGAGEMENT OF AUDITORS BY THE COMPANY**

Details are set out in the section headed “Remuneration of Auditors” under the section “Corporate Governance Structure” of this annual report.

**(XII) RECEPTION OF INVESTORS AND ANALYSTS, COMMUNICATIONS AND PRESS INTERVIEWS**

Nature	Location	Time	Mode	Audience received	Contents of discussion	Materials furnished
Presentation of Company	Hong Kong	April 2007	2006 annual results presentation	Analysts and investors	2006 annual report	Published announcements and regular reports
	Company	April 2007	Teleconference	Analysts and investors	2007 first quarterly report	Published announcements and regular reports
	Company	August 2007	Teleconference	Analysts and investors	2007 interim report	Published announcements and regular reports
	Company	October 2007	Teleconference	Analysts and investors	2007 third quarterly report	Published announcements and regular reports
External meetings	Hong Kong	May 2007	Citibank presentation	Customers of Citibank	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	May 2007	CLSA presentation	Customers of CLSA	Day-to-day operations of the Company	Published announcements and regular reports
	Yunnan	June 2007	CITIC Securities presentation	Customers of CITIC Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	August 2007	Citibank presentation	Customers of Citibank	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	September 2007	Credit Suisse presentation	Customers of Credit Suisse	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	September 2007	China Merchant Securities presentation	Customers of China Merchant Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	September 2007	Guotai Junan presentation	Customers of Guotai Junan	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	December 2007	Essence Securities presentation	Customers of Essence Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Xiamen	December 2007	Guotai Junan presentation	Customers of Guotai Junan	Day-to-day operations of the Company	Published announcements and regular reports

Nature	Location	Time	Mode	Audience received	Contents of discussion	Materials furnished
Company visits by analysts	Shenzhen	December 2007	Shenyin Wanguo Securities presentation	Customers of Shenyin Wanguo Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Hainan	December 2007	CITIC Securities presentation	Customers of CITIC Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	December 2007	CICC Securities presentation	Customers of CICC	Day-to-day operations of the Company	Published announcements and regular reports
	Overseas investors					
	Company	2007	Verbal	UOB Kay Hian, Credit Suisse, Lehman Brothers, CLSA, Deutsche Bank, Goldman Sachs, Pacific Crest, Citibank, Morgan Stanley, Fidelity, First State Investment, HALBIS PARTNERS, Capital Fund, Wellington Fund, UBS, Nikko Asset Management, Nomura Securities, Merrill Lynch Securities, HSBC	Day-to-day operations of the Company	Published announcements and regular reports
	Domestic investors					
	Company	2007	Verbal	GTJA Allianz Fund, ICBC-Credit Suisse Fund, BoCom-Schroders Fund, Franklin Templeton Sealand Fund, Changsheng Fund, BY Funds, CICC, Guotai Junan, Guosen Securities, CITIC Securities, Rongtong Funds, China AMC Fund, Guotai Funds, Central China Securities, Changjiang Securities, Southern Fund, Lion Fund, New China Life, Jiashi Fund, China Merchant Securities, Everbright Securities, China Merchant Fund, Lombarda China Fund	Day-to-day operations of the Company	Published announcements and regular reports

### (XIII) INVESTIGATIONS, ADMINISTRATIVE PENALTIES, PUBLIC CENSURES AND REPRIMANDS

During the reporting period, none of the Company, its directors, supervisors, senior management or shareholders holding 5% or more of shares of the Company was subject to investigation by competent authorities, enforcement by judiciary or disciplinary authorities, prosecution for criminal charges, examination by CSRC, administrative penalty by CSRC, prohibition from participation in the securities market, public censure, opinion of deemed inappropriateness, punishment by other administrative authorities and public reprimand by the Shenzhen Stock Exchange.

### (XIV) SIGNIFICANT ASSET IMPAIRMENT PROVISION

In accordance with relevant provisions of Accounting Standards No. 43 (Recognition and Measurement of Financial Instruments), the Company has conducted separate impairment tests in respect of trade receivables with significant individual amounts and has made provisions of RMB215 million and RMB266 million, respectively, in respect of trade receivables due from two international customers facing difficulties to operate as an ongoing concern caused by contingent factors. Other trade receivables with insignificant individual amounts have been included in a group of financial assets with similar credit risk characteristics and collectively tested for impairment. A provision of RMB199 million has been made as a result. The Directors are of the view that the significant provision of asset impairment made by the Company on a prudent basis is in compliance with relevant accounting standards and is fair and appropriate.

**(XV) SIGNIFICANT EVENTS**

During the year, the Company was not involved in any significant events as specified under Rule 67 of the Securities Law of the People's Republic of China and Rule 17 of Detailed Rules Governing Public Listed Companies' Information Disclosure (Provisional) and matters which the Board of Directors considered as significant events.

**(XVI) OTHER MATERIAL MATTERS**

During the reporting period, gains from illicit trading of shares in the Company by Directors, Supervisors and senior management forfeited by the Company were as follows:

<b>Name</b>	<b>Position</b>	<b>Time of forfeiture</b>	<b>Amount (RMB)</b>
Yu Yong	Vice President	March 2007	40,285
Zhou Susu	Senior Vice President	December 2007	135,300

**(XVII) DURING THE YEAR, THE COMPANY AND ITS SUBSIDIARIES WERE NOT INVOLVED IN ANY MATERIAL MATTERS REQUIRING DISCLOSURE THAT HAVE NOT BEEN DISCLOSED.**

# REPORT OF THE PRC AUDITORS



Ernst & Young Hua Ming (2008) Shen Zi No. 60438556\_H01

To the Shareholders of ZTE Corporation:

We have audited the accompanying financial statements of ZTE Corporation (hereinafter referred to as the "Company") and its subsidiaries (collectively the "Group"), which comprise the consolidated and company balance sheets as at 31 December 2007, the consolidated and company income statements, statements of changes in equity and cash flow statements for the year ended 31 December 2007 and notes to the financial statements.

## MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The management is responsible for preparing financial statements in accordance with Accounting Standards for Business Enterprises. This responsibility includes (1) designing, implementing and maintaining the internal control relevant to the preparation of the financial statements that are free from material misstatement whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Chinese Auditing Standards issued by the Chinese Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain a reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider the internal control relevant to the entity's preparation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the financial statements have been prepared in accordance with Accounting Standards for Business Enterprises and present fairly, in all material aspects, the financial position of the Group and the Company as at 31 December 2007 and the results of their operations and their cash flows for the year ended 31 December 2007.

Ernst & Young Hua Ming

Chinese Certified Public Accountant  
**Xie Feng**

Beijing, the People's Republic of China

Chinese Certified Public Accountant  
**Yang Min**

March 19, 2008

# CONSOLIDATED BALANCE SHEET

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

Assets	Note VI	31 Dec, 2007	31 Dec, 2006 (Restated)
<b>Current assets</b>			
Cash on hand and at bank	1	6,483,170	4,311,060
Derivative financial assets	2	123,644	33,288
Bills receivable	3	1,656,258	1,658,406
Trade receivables	4	7,098,949	5,329,628
Factored trade receivables	4	153,668	152,848
Prepayments	5	311,362	51,757
Other receivables	6	689,889	441,039
Inventories	7	5,363,430	2,481,155
Amount due from customers for contract work	8	8,606,291	5,833,480
<b>Total current assets</b>		<b>30,486,661</b>	<b>20,292,661</b>
<b>Non-current assets:</b>			
Available-for-sale financial assets	9	43,464	43,488
Long-term trade receivables	10	581,007	372,703
Factored long-term trade receivables	10	3,142,709	1,399,206
Long-term equity investments	11	137,019	57,193
Fixed assets	12	3,038,063	2,591,858
Construction in progress	13	931,090	469,636
Intangible assets	14	224,848	152,859
Deferred development costs	15	258,991	129,751
Deferred tax assets	16	295,750	210,923
Long-term deferred assets	17	33,494	40,415
<b>Total non-current assets</b>		<b>8,686,435</b>	<b>5,468,032</b>
<b>TOTAL ASSETS</b>		<b>39,173,096</b>	<b>25,760,693</b>

Notes on page 119 to page 209 form an integral part of these financial statements

# CONSOLIDATED BALANCE SHEET (continued)

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

Liabilities and shareholders' equity	Note VI	31 Dec, 2007	31 Dec, 2006 (Restated)
<b>Current liabilities:</b>			
Short-term loans	19	2,893,855	945,726
Bank advances on factored trade receivables	4	153,668	152,848
Derivative financial liabilities		7,876	—
Bills payable	21	3,946,429	2,242,566
Trade payables	22	7,856,240	4,749,099
Amount due to customers for contract work	8	1,597,314	996,275
Advances from customers	23	1,491,219	635,875
Salary and welfare payables	24	1,241,839	1,058,804
Taxes payable	25	(1,342,330)	(690,767)
Dividend payable	26	41,180	83,941
Other payables and accruals	28	1,314,057	708,188
Deferred income		101,695	66,274
Provision	27	126,042	291,832
Long-term loans due within one year	29	1,509,569	—
<b>Total current liabilities</b>		<b>20,938,653</b>	<b>11,240,661</b>
<b>Non-current liabilities:</b>			
Long-term loans	30	2,085,229	1,679,242
Bank advances on factored long-term trade receivables	10	3,142,709	1,399,206
Financial guarantee contract	20	3,689	3,689
Provision for retirement benefits		34,408	32,058
Specific payables	31	80,000	80,000
<b>Total non-current liabilities</b>		<b>5,346,035</b>	<b>3,194,195</b>
<b>Total liabilities</b>		<b>26,284,688</b>	<b>14,434,856</b>
<b>Shareholders' equity:</b>			
Share capital	32	959,522	959,522
Capital reserves	33	5,807,332	5,509,664
Surplus reserves	34	1,364,758	1,331,059
Retained profits	35	3,831,231	2,852,652
Proposed final dividend	35	239,880	143,928
Foreign currency translation differences		(65,562)	(32,880)
Equity attributable to equity holders of the parent		12,137,161	10,763,945
Minority interests	36	751,247	561,892
<b>Total shareholders' equity</b>		<b>12,888,408</b>	<b>11,325,837</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>39,173,096</b>	<b>25,760,693</b>

Notes on page 119 to page 209 form an integral part of these financial statements

The financial statements on pages 107 to 209 have been signed by:

Legal representative:  
Hou Weigui

Chief Financial Officer:  
Wei Zaisheng

Head of Finance Division:  
Shi Chunmao

Continued/...



# CONSOLIDATED INCOME STATEMENT

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

	Note VI	2007	2006 (Restated)
<b>Operating revenue</b>	37	<b>34,777,181</b>	23,214,580
Less: Operating costs	37	<b>23,004,541</b>	15,273,126
Taxes and surcharges	38	<b>280,266</b>	111,360
Selling and distribution costs		<b>4,395,125</b>	3,140,108
Administrative expenses		<b>1,777,554</b>	1,244,683
Research and development costs	15	<b>3,210,433</b>	2,832,686
Finance expenses	39	<b>494,371</b>	239,617
Impairment losses	40	<b>789,140</b>	23,317
Add: Gains from changes in fair values	41	<b>115,566</b>	16,595
Investment income	42	<b>59,437</b>	31,849
Including: Share of profits and losses of Jointly-controlled entities and associates	42	<b>24,267</b>	7,523
<b>Operating profit</b>		<b>1,000,754</b>	398,127
Add: Non-operating income	43	<b>906,133</b>	658,715
Less: Non-operating expenses	43	<b>179,153</b>	26,152
Including: Loss on disposal of non-current assets		<b>23,927</b>	14,885
<b>Total profit</b>		<b>1,727,734</b>	1,030,690
Less: Income tax	44	<b>276,283</b>	127,078
<b>Net profit</b>		<b>1,451,451</b>	903,612
Attributable to:			
Equity holders of the parent		<b>1,252,158</b>	766,972
Minority interests		<b>199,293</b>	136,640
<b>Earnings per share</b>	45		
Basic earnings per share		<b>RMB1.30</b>	RMB0.80
Diluted earnings per share		<b>RMB1.29</b>	RMB0.80

Notes on page 119 to page 209 form an integral part of these financial statements

The financial statements on pages 107 to 209 have been signed by:

Legal representative:  
Hou Weigui

Chief Financial Officer:  
Wei Zaisheng

Head of Finance Division:  
Shi Chunmao

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	2007								
	Equity attributable to equity holders of the parent								
	Share capital	Capital reserves	Surplus reserves	Retained profits	Proposed final dividend	Foreign currency translation differences	Total	Minority interests	Total shareholders' equity
<b>I. Prior year's ending balance</b>	959,522	5,509,664	1,331,059	2,767,616	143,928	(32,880)	10,678,909	561,892	11,240,801
Add: Changes in accounting policies arising from first-time adoption of ASBE	—	—	—	85,036	—	—	85,036	—	85,036
<b>II. Current year's beginning balance</b>	959,522	5,509,664	1,331,059	2,852,652	143,928	(32,880)	10,763,945	561,892	11,325,837
<b>III. Changes in current year</b>									
<b>(1) Net profit</b>	—	—	—	1,252,158	—	—	1,252,158	199,293	1,451,451
<b>(2) Gains/(losses) recognized directly in equity</b>									
1. Net gains/(losses) from change in fair values of available-for-sale financial assets	—	—	—	—	—	—	—	—	—
2. Effect of changes of other equity holders' interest in invested entities by equity method	—	—	—	—	—	—	—	—	—
3. Related tax effect of items recognized directly in equity	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	(32,682)	(32,682)	(3,647)	(36,329)
<b>Sub-total of (1) and (2)</b>	—	—	—	1,252,158	—	(32,682)	1,219,476	195,646	1,415,122
<b>(3) Changes of paid-in capital</b>									
1. Capital injection from shareholders	—	—	—	—	—	—	—	17,207	17,207
2. Equity settled share expense	—	297,668	—	—	—	—	297,668	—	297,668
3. Others	—	—	—	—	—	—	—	—	—
<b>(4) Profit appropriation</b>									
1. Appropriation to surplus reserves	—	—	33,699	(33,699)	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	(143,928)	—	(143,928)	(23,498)	(167,426)
3. Proposal final dividend	—	—	—	(239,880)	239,880	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—
<b>(5) Transfer of shareholders' equity</b>									
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—
<b>IV. Current year's ending balance</b>	959,522	5,807,332	1,364,758	3,831,231	239,880	(65,562)	12,137,161	751,247	12,888,408

Notes on page 119 to page 209 form an integral part of these financial statements

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

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

	2006 (Restated)									
	Equity attributable to equity holders of the parent								Minority interests	Total shareholders' equity
	Share capital	Capital reserves	Surplus reserves	Retained profits	Proposed final dividend	Foreign currency translation differences	Total			
<b>I. Prior year's ending balance</b>	959,522	5,506,424	1,264,060	2,171,190	239,880	(15,981)	10,125,095	470,729	10,595,824	
Add: Changes in accounting policies arising from first-time adoption of ASBE	—	—	—	125,417	—	—	125,417	—	125,417	
<b>II. Current year's beginning balance</b>	959,522	5,506,424	1,264,060	2,296,607	239,880	(15,981)	10,250,512	470,729	10,721,241	
<b>III. Changes in current year</b>										
<b>(1) Net profit</b>	—	—	—	766,972	—	—	766,972	136,640	903,612	
<b>(2) Gains/(losses) recognized directly in equity</b>										
1. Net gains/(losses) from change in fair values of available-for-sale financial assets	—	—	—	—	—	—	—	—	—	
2. Effect of changes of other equity holders' interest in invested entities by equity method	—	760	—	—	—	—	760	—	760	
3. Related tax effect of items recognized directly in equity	—	—	—	—	—	—	—	—	—	
4. Others	—	—	—	—	—	(16,899)	(16,899)	(7,429)	(24,328)	
<b>Sub-total of (1) and (2)</b>	—	760	—	766,972	—	(16,899)	750,833	129,211	880,044	
<b>(3) Changes of paid-in capital</b>										
1. Capital injection from shareholders	—	—	—	—	—	—	—	30,366	30,366	
2. Equity settled share expense	—	2,480	—	—	—	—	2,480	—	2,480	
3. Acquisition of minority interests	—	—	—	—	—	—	—	(31,169)	(31,169)	
4. Others	—	—	—	—	—	—	—	—	—	
<b>(4) Profit appropriation</b>										
1. Appropriation to surplus reserves	—	—	66,999	(66,999)	—	—	—	—	—	
2. Distribution to shareholders	—	—	—	—	(239,880)	—	(239,880)	(37,245)	(277,125)	
3. Proposal final dividend	—	—	—	(143,928)	143,928	—	—	—	—	
4. Others	—	—	—	—	—	—	—	—	—	
<b>(5) Transfer of shareholders' equity</b>										
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—	
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—	—	
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	
4. Others	—	—	—	—	—	—	—	—	—	
<b>IV. Current year's ending balance</b>	959,522	5,509,664	1,331,059	2,852,652	143,928	(32,880)	10,763,945	561,892	11,325,837	

Notes on page 119 to page 209 form an integral part of these financial statements

The financial statements on pages 107 to 209 have been signed by:

Legal representative:  
Hou Weigui

Chief Financial Officer:  
Wei Zaisheng

Head of Finance Division:  
Shi Chunmao

Continued/...

# CONSOLIDATED CASH FLOW STATEMENT

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

	Notes VI	2007	2006 (Restated)
<b>1. Cash flows from operating activities</b>			
Cash received from sale of goods or rendering services		34,078,133	21,600,437
Cash received from taxes returned		2,649,273	1,404,449
Cash received relating to other operating activities	46	199,881	131,464
<b>Sub-total of cash inflow</b>		<b>36,927,287</b>	23,136,350
Cash paid for goods and services		24,683,459	17,685,647
Cash paid to and on behalf of employees		4,778,567	3,514,280
Payments of taxes and levies		1,729,913	1,265,754
Cash paid relating to other operating activities	46	5,646,958	2,218,753
<b>Sub-total of cash outflow</b>		<b>36,838,897</b>	24,684,434
<b>Net cash flows from operating activities</b>	47	<b>88,390</b>	(1,548,084)
<b>2. Cash flows from investing activities</b>			
Cash received from sale of investments		26,803	22,766
Cash received from gains of investment		34,479	23,265
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		18,295	20,851
<b>Sub-total of cash inflow</b>		<b>79,577</b>	66,882
Cash paid to acquire fixed asset, intangible assets and other long-term assets		1,777,223	1,181,162
Cash paid for equity investment		60,000	49,283
<b>Sub-total of cash outflow</b>		<b>1,837,223</b>	1,230,445
<b>Net cash flow from investing activities</b>		<b>(1,757,646)</b>	(1,163,563)
<b>3. Cash flows from financing activities</b>			
Cash received from investment		503,138	30,366
Including: Capital injected into subsidiaries by minority interests		17,207	30,366
Cash received from borrowings		6,981,386	3,093,148
<b>Sub-total of cash inflow</b>		<b>7,484,524</b>	3,123,514
Cash paid for debt repayments		3,117,701	1,147,875
Cash payments for distribution of dividends and interest expenses		538,488	509,886
Including: Dividends paid by subsidiaries to minority interests		66,259	116,312
<b>Sub-total of cash outflow</b>		<b>3,656,189</b>	1,657,761
<b>Net cash flow from financing activities</b>		<b>3,828,335</b>	1,465,753
<b>4. Effect of changes in foreign exchange rate on cash and cash equivalents</b>		<b>8,607</b>	(9,276)
<b>5. Net increase (decrease) in cash and cash equivalents</b>		<b>2,167,686</b>	(1,255,170)
Add: cash and cash equivalents at beginning of year		4,142,063	5,397,233
<b>6. Net balance of cash and cash equivalents</b>	48	<b>6,309,749</b>	4,142,063

Notes on page 119 to page 209 form an integral part of these financial statements

The financial statements on pages 107 to 209 have been signed by:

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 VI	31 Dec, 2007	31 Dec, 2006 (Restated)
<b>Current assets</b>			
Cash on hand and at bank		4,640,149	2,957,920
Derivative financial instruments		123,644	—
Bills receivable		1,599,250	1,617,133
Trade receivables	4	8,945,606	5,753,208
Factored trade receivables	4	278,668	275,830
Prepayments		85,165	20,619
Dividend receivable		184,589	817,631
Other receivables	6	1,489,362	1,220,099
Inventories		1,443,814	1,179,105
Amount due from customers for contract work		8,216,361	5,809,647
<b>Total current assets</b>		<b>27,006,608</b>	19,651,192
<b>Non-current assets:</b>			
Available-for-sale financial assets	9	41,464	41,488
Long-term trade receivables	10	401,715	328,166
Factored long-term trade receivables	10	3,142,709	1,394,970
Long-term equity investments	11	547,970	472,904
Fixed assets		1,878,330	1,611,968
Construction in progress		817,787	402,430
Intangible assets		78,398	78,456
Deferred development costs		127,624	129,751
Deferred tax assets		256,407	194,547
<b>Total non-current assets</b>		<b>7,292,404</b>	4,654,680
<b>TOTAL ASSETS</b>		<b>34,299,012</b>	24,305,872

Notes on page 119 to page 209 from an integral part of these financial statements

# BALANCE SHEET (continued)

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

Liability and shareholders' equity	Note VI	31 Dec, 2007	31 Dec, 2006 (Restated)
<b>Current liabilities:</b>			
Short-term loans		2,535,673	741,827
Bank advances on factored trade receivables	4	278,668	275,830
Bills payable	21	3,818,010	2,187,595
Trade payables	22	8,616,400	6,704,326
Amount due to customers for contract work		472,653	991,612
Advances from customers		1,502,276	513,952
Salary and welfare payables		551,215	727,981
Taxes payable		(1,056,962)	(615,741)
Dividend payable		500	378
Other payables and accruals		2,643,437	701,726
Deferred income		21,695	14,404
Provision		78,463	243,417
Long-term loans due within one year		1,509,569	—
<b>Total current liabilities</b>		<b>20,971,597</b>	<b>12,487,307</b>
<b>Non-current liabilities:</b>			
Long-term loans		911,322	1,329,478
Bank advances on factored long-term trade receivables	10	3,142,709	1,394,970
Financial guarantee contract		3,689	3,689
Provision for retirement benefits		34,408	32,058
Specific payables		80,000	80,000
<b>Total non-current liabilities</b>		<b>4,172,128</b>	<b>2,840,195</b>
<b>Total liabilities</b>		<b>25,143,725</b>	<b>15,327,502</b>
<b>Shareholders' equity:</b>			
Share capital		959,522	959,522
Capital reserves		5,772,061	5,474,393
Surplus reserves		769,603	769,603
Retained profits		1,417,872	1,632,417
Proposed final dividend		239,880	143,928
Foreign currency translation differences		(3,651)	(1,493)
<b>Total shareholders' equity</b>		<b>9,155,287</b>	<b>8,978,370</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>34,299,012</b>	<b>24,305,872</b>

Notes on page 119 to page 209 form an integral part of these financial statements

The financial statements on pages 107 to 209 have been signed by:

Legal representative:  
Hou Weigui

Chief Financial Officer:  
Wei Zaisheng

Head of Finance Division:  
Shi Chunmao

Continued/...

# INCOME STATEMENT

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

	Note VI	2007	2006 (Restated)
<b>Operating revenue</b>	37	<b>32,799,255</b>	21,903,730
Less: Operating costs	37	<b>27,598,911</b>	18,838,291
Taxes and surcharges		<b>41,396</b>	44,080
Selling and distribution costs		<b>3,678,450</b>	2,291,774
Administrative expenses		<b>1,165,704</b>	1,176,478
Research and development costs		<b>1,066,595</b>	828,968
Finance expenses		<b>683,100</b>	285,112
Impairment losses		<b>669,501</b>	16,684
Add: Gains from changes in fair values		<b>123,644</b>	—
Investment income	42	<b>2,050,189</b>	2,346,986
Including: Share of profits and losses of Jointly-controlled entities and associates		<b>5,268</b>	2,780
<b>Operating profit</b>		<b>69,431</b>	769,329
Add: Non-operating income		<b>127,117</b>	76,778
Less: Non-operating expenses		<b>64,481</b>	13,095
Including: Loss on disposal of non-current assets		<b>11,508</b>	12,236
<b>Total profit</b>		<b>132,067</b>	833,012
Less: Income tax		<b>106,732</b>	1,706
<b>Net profit</b>		<b>25,335</b>	831,306
<b>Earnings per share</b>			
Basic earnings per share		<b>RMB0.03</b>	RMB0.87
Diluted earnings per share		<b>RMB0.03</b>	RMB0.87

Notes on page 119 to page 209 form an integral part of these financial statements

The financial statements on pages 107 to 209 have been signed by:

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Wei Zaisheng

Head of Finance Division:  
Shi Chunmao



# STATEMENT OF CHANGES IN EQUITY

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

	2007						
	Share capital	Capital reserves	Surplus reserves	Retained profits	Proposed final dividend	Foreign currency translation differences	Total shareholders' equity
<b>I. Prior year's ending balance</b>	959,522	5,536,137	769,603	3,622,498	143,928	(3,578)	11,028,110
Add: Changes in accounting policies arising from first-time adoption of ASBE	—	(61,744)	—	(1,990,081)	—	2,085	(2,049,740)
<b>II. Current year's beginning balance</b>	959,522	5,474,393	769,603	1,632,417	143,928	(1,493)	8,978,370
<b>III. Changes in current year</b>							
<b>(1) Net profit</b>	—	—	—	25,335	—	—	25,335
<b>(2) Gains/(losses) recognized directly in equity</b>							
1. Net gains/(losses) from change in fair values of available-for-sale financial assets	—	—	—	—	—	—	—
2. Effect of changes of other equity holders' interest in invested entities by equity method	—	—	—	—	—	—	—
3. Related tax effect of items recognized directly in equity	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	(2,158)	(2,158)
<b>Sub-total of (1) and (2)</b>	—	—	—	25,335	—	(2,158)	23,177
<b>(3) Changes of paid-in capital</b>							
1. Capital injection from shareholders	—	—	—	—	—	—	—
2. Equity settled share expense	—	297,668	—	—	—	—	297,668
3. Others	—	—	—	—	—	—	—
<b>(4) Profit appropriation</b>							
1. Appropriation to surplus reserves	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	(143,928)	—	(143,928)
3. Proposed final dividend	—	—	—	(239,880)	239,880	—	—
4. Others	—	—	—	—	—	—	—
<b>(5) Transfer of shareholders' equity</b>							
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
<b>IV. Current year's ending balance</b>	959,522	5,772,061	769,603	1,417,872	239,880	(3,651)	9,155,287

Notes on page 119 to page 209 form an integral part of these financial statements

# STATEMENT OF CHANGES IN EQUITY (continued)

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

	2006 (Restated)						
	Share capital	Capital reserves	Surplus reserves	Retained profits	Proposed final dividend	Foreign currency translation differences	Total shareholders' equity
<b>I. Prior year's ending balance</b>	959,522	5,532,896	769,603	3,116,070	239,880	(2,035)	10,615,936
Add: Changes in accounting policies arising from first-time adoption of ASBE	—	(60,983)	—	(2,171,031)	—	2,087	(2,229,927)
<b>II. Current year's beginning balance</b>	959,522	5,471,913	769,603	945,039	239,880	52	8,386,009
<b>III. Changes in current year</b>							
<b>(1) Net profit</b>	—	—	—	831,306	—	—	831,306
<b>(2) Gains/(losses) recognized directly in equity</b>							
1. Net gains/(losses) from change in fair values of available-for-sale financial assets	—	—	—	—	—	—	—
2. Effect of changes of other equity holders' interest in invested entities by equity method	—	—	—	—	—	—	—
3. Related tax effect of items recognized directly in equity	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	(1,545)	(1,545)
<b>Sub-total of (1) and (2)</b>	—	—	—	831,306	—	(1,545)	829,761
<b>(3) Changes of paid-in capital</b>							
1. Capital injection from shareholders	—	—	—	—	—	—	—
2. Equity settled share expense	—	2,480	—	—	—	—	2,480
3. Others	—	—	—	—	—	—	—
<b>(4) Profit appropriation</b>							
1. Appropriation to surplus reserves	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	(239,880)	—	(239,880)
3. Proposed final dividend	—	—	—	(143,928)	143,928	—	—
4. Others	—	—	—	—	—	—	—
<b>(5) Transfer of shareholders' equity</b>							
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
<b>IV. Current year's ending balance</b>	959,522	5,474,393	769,603	1,632,417	143,928	(1,493)	8,978,370

Notes on page 119 to page 209 form an integral part of these financial statements

The financial statements on pages 107 to 209 have been signed by:

Legal representative:  
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Wei Zaisheng

Head of Finance Division:  
Shi Chunmao

Continued/...

# CASH FLOW STATEMENT

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

	2007	2006 (Restated)
<b>1. Cash flows from operating activities</b>		
Cash received from sale of goods or rendering services	29,194,282	20,378,716
Cash received from taxes returned	1,986,659	810,891
Cash received relating to other operating activities	158,803	91,495
<b>Sub-total of cash inflow</b>	<b>31,339,744</b>	<b>21,281,102</b>
Cash paid for goods and services	26,772,364	19,211,544
Cash paid to and on behalf of employees	1,884,394	1,503,266
Payments of taxes and levies	132,293	161,113
Cash paid relating to other operating activities	2,538,701	2,134,330
<b>Sub-total of cash outflow</b>	<b>31,327,752</b>	<b>23,010,253</b>
<b>Net cash flows from operating activities</b>	<b>11,992</b>	<b>(1,729,151)</b>
<b>2. Cash flows from investing activities</b>		
Cash received from sale of investments	10,146	9,430
Cash received from gains of investment	29,534	9,196
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	—	3,942
<b>Sub-total of cash inflow</b>	<b>39,680</b>	<b>22,568</b>
Cash paid to acquire fixed asset, intangible assets and other long-term assets	1,276,510	778,177
Cash paid for equity investment	65,151	6,340
<b>Sub-total of cash outflow</b>	<b>1,341,661</b>	<b>784,517</b>
<b>Net cash flow from investing activities</b>	<b>(1,301,981)</b>	<b>(761,949)</b>
<b>3. Cash flows from financing activities</b>		
Cash received from investment	485,932	—
Cash received from borrowings	5,853,557	2,626,523
<b>Sub-total of cash inflow</b>	<b>6,339,489</b>	<b>2,626,523</b>
Cash paid for debt repayments	2,968,298	1,055,218
Cash payments for distribution of dividends and interest expenses	390,798	363,718
<b>Sub-total of cash outflow</b>	<b>3,359,096</b>	<b>1,418,936</b>
<b>Net cash flow from financing activities</b>	<b>2,980,393</b>	<b>1,207,587</b>
<b>4. Effect of changes in foreign exchange rate on cash and cash equivalents</b>	<b>(8,758)</b>	<b>(6,578)</b>
<b>5. Net increase (decrease) in cash and cash equivalents</b>	<b>1,681,646</b>	<b>(1,290,091)</b>
Add: cash and cash equivalents at beginning of year	2,922,719	4,212,810
<b>6. Net balance of cash and cash equivalents</b>	<b>4,604,365</b>	<b>2,922,719</b>

Notes on page 119 to page 209 form an integral part of these financial statements

The financial statements on pages 107 to 209 have been signed by:

Legal representative:  
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Head of Finance Division:  
Shi Chunmao

# NOTES TO FINANCIAL STATEMENTS

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

## I CORPORATE 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 in 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 (collectively the “Group”) mainly engaged in 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 electronics devices, micro-electronics components (excluding franchised, state-controlled and monopolized merchandises); sub-contracting of communications and related projects outside the PRC and global tendering projects within the PRC, as well as import and export of the equipment and materials required by the aforesaid projects outside the PRC and sending labors 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.

# NOTES TO FINANCIAL STATEMENTS

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

## I CORPORATE BACKGROUND (continued)

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 2007, the total accumulated share capital in issue of the Company was 959,522,000 shares. Please see Note VI. 32 for details.

## II BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The financial statements are prepared in accordance with the Accounting Standards for Business Enterprises (referred to as "ASBE", including basic standard, specific standards, implementation guidelines and other relevant regulations) which were promulgated by the Ministry of Finance of the PRC (the "MOF") in 2006.

The Company has been listed in Hong Kong Stock Exchange since 9 December 2004, and has been preparing financial statements under Hong Kong Financial Reporting Standards. In accordance with ASBE Interpretation No. 1 issued by the MOF in November 2007 and relevant information available, the Company restated its comparative figures retrospectively as a result of the change in accounting policies and consistently applied the accounting policies mentioned in Note III during the accounting periods covered by the financial statements.

The financial statements truly and completely reflect the financial position on 31 December 2007 and the operating results and cash flow for the year 2007 of the Company and the Group.

The financial statements are prepared on a going concern basis.

## III 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.

### 1. Financial year

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

### 2. 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.

The Group's subsidiaries, jointly-controlled entities and associates determine their reporting currency according to the major economic environment in which they operate the business, and translate into Renminbi when preparing the financial statements.

### 3. Basis of accounting and measurement basis

The Group's accounts have been prepared on an accrual basis. All items are recorded by using historical cost as the basis of measurement except for some financial instruments. Impairment provision is proposed according to relevant regulation if the assets are impaired.

# NOTES TO FINANCIAL STATEMENTS

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

## III PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

### 4. Business combination

Business combination represents transaction which combines two or more separate businesses into one reporting entity. Business combinations are classified into business combinations involving entities under common control and business combinations not involving entities under common control.

#### *Business combinations involving entities under common control*

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The absorbing party is the entity that obtains control of the other entities participating in the combination at the combination date, and the other entities participating in the combination are the parties being absorbed. The combination date is the date on which the absorbing party effectively obtains control of the parties being absorbed.

Assets and liabilities obtained by absorbing party in the business combination are recognized at their carrying amounts at the combination date as recorded by the party being absorbed. The difference between the carrying amount of the consideration paid for the combination (or aggregate face values of the shares issued) and the carrying amount of the net assets obtained is adjusted to capital reserves. If the capital reserves is not sufficient to absorb the difference, any excess is adjusted to retained earnings.

Any costs directly attributable to the combination are recognized as expenses when incurred by the absorbing party.

#### *Business combinations not involving entities under common control*

A business combination not involving entities under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. The acquirer is the entity that obtains control of the other entities participating in the combination at the acquisition date, and the other entities participating in the combination are the acquirees. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

The cost of acquisition is measured as the aggregate of the fair values of the assets given, liabilities incurred or assumed, equity instruments issued by the acquirer at the acquisition date, and all the costs incurred directly attributable to the acquisition, in exchange for control of the acquiree.

The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair values at the acquisition date.

Where the cost of a business combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized as goodwill. Where the cost of a business combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer reassesses the measurement of the fair values of the acquiree's identifiable net assets, liabilities and contingent liabilities and the measurement of the cost of combinations. If after that reassessment, the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the remaining difference is recognized in the profit or loss for the current period.

# NOTES TO FINANCIAL STATEMENTS

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

## III PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

### 5. Consolidated financial statements

The consolidation scope for consolidated financial statement is determined based on concept of control, including the Company and all subsidiaries' financial statements as at 31 December 2007. Subsidiaries are those entities which the Company has control over.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All significant intra-group transactions and balances are eliminated in consolidation.

The consolidated portion of shareholders' equity of the subsidiaries not held by the Group is presented separately as minority interests in the consolidated financial statements.

For subsidiaries obtained through a business combination not involving entities under common control, the operating result and cash flow of the acquiree will be recognized in consolidated financial statement from the date the Group effectively obtains the control until the date that control is terminated. When consolidated financial statement is prepared, the subsidiaries' financial statements will be adjusted based on the fair values of the identifiable assets, liabilities and contingent liabilities at the acquisition date.

For subsidiaries obtained through a business combination involving entities under common control, the operating result and cash flow of the party being absorbed will be recognized in consolidated financial statement from the beginning of the period during which the combination occurs.

### 6. Cash equivalents

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

### 7. Foreign currency translation

#### *Foreign currency transaction*

For foreign currency transactions, the Group translates the foreign currency into its functional currency.

Upon initial recognition, foreign currency transactions are translated into the functional currency using the average exchange rate for the period when transactions occur. At the balance sheet date, foreign currency monetary items are translated using the spot exchange rate at the balance sheet date. The exchange differences arising from the above translation, except the ones relating to foreign currency borrowings for the acquisition, construction or production of assets eligible for the capitalization shall be dealt with according to the principle of borrowing cost capitalization, are recognized in profit or loss. Also at the balance sheet date, foreign currency non-monetary items measured at historical cost continue to be translated using the spot exchange rate at the dates of the transactions and it does not change its carrying amount in functional currency. Foreign currency non-monetary items measured at fair value are translated using the spot exchange rate. The exchange differences arising from the above translation are recognized as expenses or capital reserves.



# NOTES TO FINANCIAL STATEMENTS

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

## III PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

### 7. Foreign currency translation (continued)

#### *Translation of foreign operations*

The Group translates the functional currencies of foreign operations into Renminbi when preparing the financial statements. Asset and liability items in the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date. Shareholders' equity items, except for retained earnings, are translated at the spot exchange rates at the date when such items arose. Income and expense items in the income statement are translated using the average exchange rate for the period when transactions occur. Translation differences arising from the above translation are presented as a separate line item under shareholders' equity in the balance sheet. When a foreign operation is disposed of, the translation differences relating to translation of the financial statements of that foreign operation are transferred to profit or loss in the period in which the disposal occurs, and partial disposal is calculated based on disposal ratio.

Cash flows denominated in foreign currencies and foreign subsidiaries' cash flows are translated using the average exchange rate for the period when cash flows occur. The impact on cash caused by the fluctuation of exchange rates is presented as a separate line item in the cash flow statement.

### 8. 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. Inventories' costs include purchasing costs, processing costs and other costs.

Actual costs of goods delivered are recognized using the weighted moving average method.

Inventories are valued using the perpetual inventories system.

Inventories at the end of the year are stated at the lower of cost or net realizable value. Provision for impairment of inventories is made and recognized as expenses when the net realizable value is lower than cost. If the factors that give rise to the provision in prior years are not in effect in current year, as a result that the net realizable value of the inventories is higher than cost, provision would be reversed within the impaired cost, and recognized in profit or loss.

Net realizable values represent estimated selling prices less any estimated costs to be incurred to completion, estimated selling expenses and relevant tax amounts. Provision for impairment of inventories is made on the basis of individual categories.

# NOTES TO FINANCIAL STATEMENTS

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

## III PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

### 9. Construction contract works

The amount of construction contract works represent costs incurred to date and recognized gross profit or 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 recognized gross profit or loss in excess of progress billings is recognized as assets; whereas, the amount of progress billings in excess of contract costs incurred to date plus recognized gross profit or loss is recognized as liabilities.

The proportion of construction contract work completion represent the contract costs incurred to date as a percentage of estimated total contract costs. When construction contract work can be estimated reliably, the contract revenue and cost would be recognized by relevant percentage of completion.

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 recognized losses.

Upon the realization of anticipated contract losses of 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 recognized.

### 10. Long-term investments

Long-term equity investments include investments in subsidiaries, joint ventures and associates. Long-term equity investments were recorded at initial investment cost on acquisition.

The cost method is used when the Group controls the invested enterprise or when the Group does not jointly control or have significant influence over the invested enterprise, and the long term equity investments are not quoted in active markets, and have no reliably measurable fair values.

When the cost method is used, long-term equity investments are measured at initial cost on acquisition. Profit distributions or cash dividends declared by the invested enterprise are recognized as investment income for the current period. The amount of investment income recognized is limited to the amount distributed out of accumulated net profit of the invested enterprise that arises after the investment was made. The amount of profit distributions or cash dividends declared by the invested enterprise in excess of the above threshold is treated as a recovery of initial investment cost.

The equity method is used to account for long-term equity investments when the Company can jointly control or has significant influence over the invested entity.

Under the equity method, any excess of the initial investment cost over the Company's share of the net fair value of the investment's identifiable assets and liabilities is included in the initial investment cost of the long-term equity investment. Any excess of the Company's share of the investment's identifiable assets and liabilities over the cost of investment is excluded from the carrying amount of the investment and recognized in profit and loss for the current period.

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## III PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

### 10. Long-term investments (continued)

Under the equity method, after the long-term equity investments are acquired, investment gains or losses are recognized and the carrying amount of the long-term equity investment is adjusted to reflect the Company's share of the investee's net profit or loss. When recognizing the Company's share of the net profit or loss of the investees, the Group makes adjustments based on fair values of the investees' identifiable assets and liabilities at the acquisition date and in accordance with the Group's accounting policy and accounting period to investee's net profits which also eliminates profit or loss from inter-transactions with associates and joint ventures attributed to investor which is calculated pro rata on the basis of share percentage (for loss from inter-transactions belonging to impairment loss, it shall be wholly recognized). When the invested enterprise declares profit appropriations or cash dividends, the carrying amount of investment is adjusted down by the Company's share of the profit appropriations and dividends. The Company shall discontinue recognizing its share of the losses of the investee after the long-term equity investment together with any long-term interests that in substance forms part of the Company's net investment in the investee are reduced to zero, except to the extent that the Company has incurred obligations to assume additional losses. The Company also adjusts the carrying amount of long-term equity investments for other changes in owner's equity of the investees (other than net profits or losses), and includes the corresponding adjustment in equity.

On disposal of the long-term equity investments, the difference between book value and market price is recognized in profit or loss for the current period.

### 11. Fixed assets

Fixed assets are tangible assets held for service provision, rental or administrative purposes that are used for more than one accounting year.

A fixed asset is recognized when, and only when, it is probable that future economic benefits that are associated with the fixed asset will flow to the Group and the cost can be measured reliably. Subsequent expenditures related to a fixed asset are recognized in the carrying amount of the fixed asset if the above recognition criteria are met, and the book value of replaced part is derecognized; otherwise, those expenditures are recognized in profit or loss as incurred.

Fixed assets are initially recognized at cost taking into account the impact of expected future disposal expenditure. Cost of purchased fixed assets includes purchasing price, relevant taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use.

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## III PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

### 11. Fixed assets (continued)

Fixed assets are depreciated on a straight-line basis, and the respective estimated useful lives, estimated residual values and annual depreciation rate are as follows:

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

The Group reviews, at least at each year end, useful lives, estimated residual values and depreciation methods of fixed assets and makes adjustments if necessary.

### 12. Construction in progress

Construction-in-progress is measured at the actual construction expenditure, including the necessary costs incurred for fixed assets before they can be put into use and other related fees.

Construction-in-progress is transferred into fixed assets when it is ready for its intended use.

### 13. Intangible assets

The Group's intangible assets are initially measured at cost.

Useful life of an intangible asset is determined by the period over which it is expected to bring economic benefits to the Group. For an intangible asset with no foreseeable limit to the period over which it is expected to bring economic benefits to the Group, it is treated as an intangible asset with indefinite useful life.

Useful life of respective intangible assets is as follows:

	Estimated useful lives
Software	5 years
Technology know-how	10 years
Land use rights	50 years
Operating concession	20 years

The Group treats the land-use-rights obtained through purchases or transfers by paying the land use fees, and those reasonably allocated to land-use-rights from the price of the purchased properties as intangible assets.

Straight line amortization method is used during the useful life period for intangible assets with definite useful lives. The Group reviews, at least at each year end, useful life and amortization method for intangible assets with definite lives and makes adjustment when necessary.

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## III PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

### 14. Research and development costs

The Group classified the expense for internal research and development as research costs and development costs.

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

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

Corresponding projects in the Group are formed when they meet the above condition technical feasibility and economic feasibility studies. Then, those projects are progressed into the development phase.

### 15. Financial instruments

Financial instruments refer to the contracts which give rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

#### *Recognition and derecognition of financial instruments*

The Group recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the financial instrument.

A financial asset is derecognized when one of the following criteria is met:

- 1) The contractual right of receiving the cash flows generated from the financial asset is terminated;
- 2) The financial asset has been transferred, and met the following derecognition criteria for financial asset transfer.

If the obligation of financial liability has been fulfilled, cancelled or expired, the financial liability is derecognized. If the present financial liability is substituted by the same debtor with another liability differing in substance, or the terms of the present liability have been substantially modified, this substitution or modification is treated as derecognition of a present liability and recognition of a new liability with any arising difference recognized in profit or loss.

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## III PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

### 15. Financial instruments (continued)

#### *Classification and valuation of financial assets*

The Group classifies its financial assets into four categories at initial recognition: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. Financial assets are initially recognized at fair value. For financial assets at fair value through profit or loss, the relevant transaction costs are directly recognized in profit or loss; for other financial assets, the relevant transaction costs are recognized in their initial recognition amount.

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss comprise held-for-trading financial assets and those designated at fair value through profit or loss at inception. Financial assets are classified as held-for-trading if they satisfy one of the following conditions: (1) they are acquired or incurred principally for the purpose of selling or repurchasing in the near term; (2) they are part of a portfolio of identified financial instruments that are managed together, and for which there is objective evidence of a recent pattern of short-term profit taking; (3) they are derivative financial instruments. These financial assets are subsequently measured at fair value, and gain or loss from changes in fair value and derecognition are recognized in current period's profit and loss.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortisation process.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or those financial assets that are not classified in any of the above categories. Subsequent to initial recognition, these financial assets are measured at fair value. Gains and losses arising from fair value changes in available-for-sale financial assets, except for impairment losses and foreign currency monetary items' translation differences which are recognized in profit or loss, are recognized as a separate part of capital reserves until the financial assets are derecognized or impaired upon which the cumulative gains or losses are transferred out from capital reserves to profit or loss. Dividend or interest income derived from available-for-sale financial assets is recognized in profit or loss. Gains and losses arising from its derecognition are recognized in current period's profit or loss.

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## III PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

### 15. Financial instruments (continued)

#### *Classification and valuation of financial assets (continued)*

##### *Available-for-sale financial assets (continued)*

Equity investments that are not quoted in an active market and whose fair value cannot be reliably measured are carried at cost.

#### *Classification and valuation of financial liabilities*

The Group classifies its financial liabilities at initial recognition into financial liabilities at fair value through profit or loss and other financial liabilities. For financial liabilities at fair value through profit or loss, the relevant transaction costs are directly recognized in profit or loss; for other financial liabilities, the relevant transaction costs are recognized in their initial recognition amount.

##### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss comprise held-for-trading financial liabilities and those designated at fair value through profit or loss at inception. Financial liabilities are classified as held-for-trading if they satisfy one of the following conditions: (1) they are acquired or incurred principally for the purpose of selling or repurchasing in the near term; (2) they are part of a portfolio of identified financial instruments that are managed together, and for which there is objective evidence of a recent pattern of short-term profit taking; (3) they are derivative financial instruments. These financial liabilities are subsequently measured at fair value, and gain or loss from changes in fair value and derecognition are recognized in current period's profit and loss.

##### *Other financial liabilities*

Subsequent to initial recognition, these financial assets are carried at amortized cost using the effective interest method.

##### *Financial guarantee contracts*

Financial guarantee contracts are initially recognized at fair value. Financial guarantee contracts not classified as financial liabilities designated at fair value through profit or loss, after initial recognition, are subsequently measured at the higher of the amount of the estimated liabilities recognized in accordance with "ASBE No. 13 — Contingences" and the initial amount less accumulated amortization recognized in accordance with "ASBE No. 14 — Revenue".

##### *Derivative financial instruments*

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from the change in fair value on derivatives that do not qualify for hedging accounting are taken directly to the income statement.



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### 15. Financial instruments (continued)

#### *The fair value of financial instruments*

If there is an active market for a financial asset or financial liability, the Group uses quoted prices in the active market to establish its fair value. For financial instruments where there is no active market, the fair value is established by using valuation techniques. Valuation techniques include reference to most recent market prices used by knowledgeable and willingness parties, reference to current fair value of other financial instrument with similar nature, discounted cash flow method and option valuation models.

#### *Impairment of financial assets*

The Group assesses at the balance sheet date the carrying amount of financial assets. If there is any objective evidence that a financial asset is impaired, the Group provides for such impairment losses. The objective evidence which indicates impairment of financial assets represents events actually occurring after initial recognition of financial assets which have an impact on financial assets' estimated future cash flows, and such impact can be reliably measured.

#### *Assets carried at amortised cost*

If there is objective evidence that an impairment loss on such financial assets has been incurred, the financial asset's carrying amount is reduced to be the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Impairment is recognized in the income statement. The present value of estimated future cash flows shall be calculated with the financial asset's original effective interest rate and the related collateral value shall also be taken into account.

For a financial asset that is individually significant, the Group assesses the asset individually for impairment, and recognizes the amount of impairment in profit or loss. For a financial asset that is not individually significant, the Group include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether the financial asset is individually significant or not, the financial asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Financial assets for which an impairment loss is individually recognized are not included in the collective assessment for impairment.

After the Group recognizes impairment loss of financial assets carried at amortized cost, if there is objective evidence that the financial assets' value restores and the restoration can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed and recognized in profit or loss. However the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date when the impairment is reversed.

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## III PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

### 15. Financial instruments (continued)

#### *Impairment of financial assets (continued)*

##### *Assets carried at cost*

If financial assets carried at cost are impaired, the impairment loss are recognized in profit or loss and measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

For long term equity investments measured using the cost method regulated in “ASBE No. 2 — Long-term equity investments” which have no quotation in an active market and whose fair value cannot be reliably measured, their impairment also follows the aforementioned principle.

##### *Available-for-sale financial assets*

If an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognized directly in capital reserves is removed from capital reserves and recognized in profit or loss. The cumulative loss that is removed from capital reserves is the difference between its acquisition cost (net of any principal repayment and amortization) and its current fair value, less any impairment loss previously recognized in profit and loss.

If after an impairment loss has been recognized on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period whereby the increase can be objectively related to an event occurring after the impairment losses were recognized, the impairment loss is reversed which is recognized in profit or loss. Impairment losses recognized for equity instruments classified as available-for-sale are not reversed through profit or loss.

#### *Derecognition of financial assets*

Derecognition of financial assets represents that the Group had transferred or sold the financial assets to another party other than the issuer (transferee).

If the Group has transferred substantially all the risks and rewards associated with the ownership of a financial asset to the transferee, the asset should be derecognized. If the Group retains substantially all the risks and rewards of ownership of a financial asset, the asset should not be derecognized.

When the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, the situation is divided into the following: if the Group has not retained control of the financial asset, the financial asset is derecognized, and any associated assets and liabilities are recognized. If the Group has retained control of the financial asset, it recognizes the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes an associated liability.

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## III PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

### 16. Borrowing costs

Borrowing cost is interest and other costs incurred by the Group in connection with the borrowing of funds, which includes borrowing interest, amortisation of discount or premium on debt, other supplementary costs and certain foreign exchange differences that occurred from the borrowing in foreign currencies.

Borrowing costs directly attributable to the acquisition, construction of qualifying assets, i.e., fixed assets, investment properties and inventories that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets.

Capitalization of borrowing costs begins where:

- Capital expenditure has already happened;
- Borrowing expenses has already incurred;
- Purchasing or production activities to get the assets ready for their intended use or sale have already happened.

The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Borrowing costs incurred afterwards are recognized in profit or loss.

During capitalization, interest of each accounting period is recognized using the following methods:

- Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings.
- Where funds are part of a general pool, the eligible amount is determined by applying a capitalization rate to the expenditure on that asset. The capitalization rate will be the weighted average of the borrowing costs applicable to the general pool.

Except for expected suspension under normal situation of qualifying assets, capitalization should be suspended during periods in which active development is more than three months. The borrowing cost should be recognized as expenses and recorded in the income statement until the resume of the construction.

### 17. Impairment of assets

The Group assesses impairment to assets other than inventories, deferred tax assets and financial assets using the methods described below:

The Group assesses at each balance sheet date whether there is an indication that a non-financial asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount and performs a test of impairment for the asset. For goodwill generated from business consolidation and intangible assets with indefinite useful lives, tests for impairment is performed at least annually regardless of whether there are indications of impairment.

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### 17. Impairment of assets (continued)

Recoverable amount is the higher of the asset's fair value less costs to sell and its present value of estimated future cash flows. The Group estimates recoverable value for individual assets. When it is difficult to estimate individually, the recoverable value of the cash generating units which the asset belongs to will be estimated. The definition of cash generating units is determined on the basis of whether the cash generating units generate cash flows which are largely independent of those from other cash generating units.

Where the carrying amount of an asset or a cash generating unit exceeds its recoverable amount, the asset or cash generating unit is considered impaired and is written down to its recoverable amount. The difference between the carrying amount and recoverable amount is recognized in the current period's profit or loss and provision for impairment is made accordingly.

Previously recorded impairment losses for goodwill are not reversed in subsequent periods.

### 18. Provision

The Group recognize 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;
- the obligation would probably result in an outflow of economic resources from the Group;
- the obligation could be reliably measured.

Provision was initially valued according to the best estimation for expense on fulfilling the current liabilities, in connection with the contingent risk associated, uncertainty and timing value of the currency. The book value of the provision would be reassessed on every balance sheet date. And book value will be adjusted to the best estimated value if there is certain evidence that the book value is not the best estimation.

### 19. Revenue

Revenue is recognized when it is probable that the economic benefits will flow to the Group and the amount of the revenue can be measured reliably. Revenue is recognized on the following bases:

#### *Revenue from the sale of goods*

Revenue from sales of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold and related costs incurred or to be incurred can be measured reliably.

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### 19. Revenue (continued)

#### *Revenue from the rendering of services*

On the balance sheet date, the revenue from services is recognized when transaction result of the rendering of services could be measured reliably, related revenue from services is recognized according to the percentage of completion, otherwise revenue is recognized only to the extent of cost incurred that are expected to be recoverable. The transaction result of the supply of services could be measured reliably by meeting the following conditions at the same time: Revenue can be measured reliably, the relevant economic benefits will follow to the Group, the percentage of construction work and relevant cost incurred can be measured reliably. The percentage of completion is based on the percentage of costs incurred to date on a contract relative to the estimated total expected contract costs.

#### *Revenue from the construction contracts*

Operating revenue from telecommunications systems contracts is recognized 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.

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

### 20. Operating leases

Rental expenditure under operating leases are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

### 21. Employee benefits

Employee benefits represent all kinds of benefits and other relevant expenditures incurred by the Group in exchange for service rendered by employees. During the accounting period when employees provide services, employee benefits payable is recognized as a liability. Items which expire longer than one year after the balance sheet date are measured at present value if the discounting impact is significant.

#### *Defined contribution pension scheme*

Employees of the Group participated in contribution pension scheme managed by the local government, including pension scheme, medical insurance, unemployment insurance and housing fund, the contributions payable are charged as an expense to the income statement as incurred.

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### 21. Employee benefits (continued)

#### *Defined benefits pension scheme*

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

#### *Share-based payment transactions*

The Company operates a share incentive scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the operations of the Group. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognized, 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 (the "vesting date"). The cumulative expense recognized for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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## III PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

### 21. Employee benefits (continued)

#### *Share-based payment transactions (continued)*

The dilution effect of the share-based payment is reflected the addition shared turned out from the diluted earning per shares.

### 22. Income tax

Income taxes include current and deferred tax. Income taxes are recognized in current period's profit and loss as income tax expense or income except for the adjustment made for goodwill in a business consolidation and income tax from transactions or items that directly related to equity.

Current tax represents current income tax payable calculated on current taxable income. Taxable income is calculated by adjustment to current period's accounting profit before tax according to the relevant tax regulations.

For current period's deferred tax assets and liabilities arising in current and prior periods, the Group measures them at the amount expected to be paid or recovered according to the relevant taxation regulations.

The Group recognizes deferred tax liabilities or assets based on temporary differences using balance sheet liability method. Temporary differences are differences between the carrying amount of assets or liabilities in the balance sheet and their tax base. Temporary differences also include the differences between the book values and tax bases of items not recognized as assets or liabilities where the tax base can be calculated according to the relevant tax regulations.

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

- 1) Where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- 2) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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



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### 22. Income tax (continued)

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

As at balance sheet date, deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, and reflects the tax consequences that would follow the manner in which the Group expects, at the balance sheet date, to recover the assets or settle the carrying amount of its assets and liabilities.

The Group re-assesses book value of deferred tax assets at each balance sheet date. The Group reduces the book value of deferred tax assets if future taxable profit may not be sufficient to offset the benefits from the assets. When future taxable profit is sufficient, the reduction is reversed.

### 23. Government grants

Government grants mainly represented refunds of VAT and contributions to development fund, as well as financial subsidy for new products. Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

### 24. Significant accounting judgements and estimates

#### *Judgements*

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

#### *Revenue recognition*

The Group's material revenue streams are the result of a wide range of activities, from custom design and installation over a period of time to a single delivery of equipment to a customer. The Group's networking solutions also cover a broad range of technologies and are offered on a global basis. As a result, our revenue recognition policies can differ depending on the level of customization within the solution and the contractual terms with the customer. Newer technologies within one of the Group's reporting segments may also have different revenue recognition policies, depending on, among other factors, the specific performance and acceptance criteria within the applicable contract. Therefore, management must use significant judgement in determining how to apply the current accounting standards and interpretations, not only based on the networking solution, but also within networking solutions based on reviewing the level of customization and contractual terms with the customer. As a result, our revenues may fluctuate from period to period based on the mix of solutions sold and the geographic region in which they are sold.

# NOTES TO FINANCIAL STATEMENTS

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## III PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

### 24. Significant accounting judgements and estimates (continued)

#### *Judgements* (continued)

#### *Revenue recognition* (continued)

When a customer arrangement involves multiple deliverables where the deliverables are governed by more than one authoritative standard, the Group evaluates all deliverables to determine whether they represent separate units of accounting based on the following criteria:

- 1) whether the delivered item has value to the customer on a stand alone basis;
- 2) whether there is objective and reliable evidence of the fair value of the undelivered item(s); and
- 3) if the contract includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and is substantially in the Group's control.

The Group's determination of whether deliverables within a multiple element arrangement can be treated separately for revenue recognition purposes involves significant estimates and judgement, such as whether fair value can be established on undelivered obligations and/or whether delivered elements have standalone value to the customer. Changes to the Group's assessment of the accounting units in an arrangement and/or our ability to establish fair values could significantly change the timing of revenue recognition.

If objective and reliable evidence of fair value exists for all units of accounting in the contract, revenue is allocated to each unit of accounting or element based on relative fair values. In situations where there is objective and reliable evidence of fair value for all undelivered elements, but not for delivered elements, the residual method is used to allocate the contract consideration. Under the residual method, the amount of revenue allocated to delivered elements equals the total arrangement consideration less the aggregate fair value of any undelivered elements. Each unit of accounting is then accounted for under the applicable revenue recognition guidance. If sufficient evidence of fair value cannot be established for an undelivered element, revenue related to delivered elements is deferred until the earlier of when sufficient fair value is established and when all remaining elements have been delivered. Once there is only one remaining element to be delivered within the unit of accounting, the deferred revenue is recognized based on the revenue recognition guidance applicable to the last delivered element. For instance, where post-contract support is the last delivered element within the unit of accounting, the deferred revenue is recognized ratably over the remaining post-contract support term once post-contract support is the only undelivered element.

The Group's assessment of which revenue recognition guidance is appropriate for accounting for a deliverable also can involve significant judgement. For instance, the determination of whether software is more than incidental to hardware can impact on whether the hardware is accounted for based on software revenue recognition guidance or based on general revenue recognition guidance. This assessment could significantly impact the amount and timing of revenue recognition.

# NOTES TO FINANCIAL STATEMENTS

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## III PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

### 24. Significant accounting judgements and estimates (continued)

#### *Judgements* (continued)

#### *Revenue recognition* (continued)

For elements related to customised network solutions and certain network build-outs, revenues are recognized under the ASBE 15 Construction Contract, generally using the percentage-of-completion method. In using the percentage-of-completion method, revenues are generally recorded based on a measure of the percentage of costs incurred to date on a contract relative to the estimated total expected contract costs. Profit estimates on long-term contracts are revised periodically based on changes in circumstances and any losses on contracts are recognized in the period that such losses become known. Generally, the terms of long-term contracts provide for progress billing are based on completion of certain phases of work. Contract revenues recognized, based on costs incurred towards the completion of the project, that are unbilled are accumulated in the contracts in progress account included in amount due from customers for contract works. Billings in excess of revenues recognized to date on long-term contracts are recorded as advance billings in excess of revenues recognized to date on contracts within amount due to customers for contract works. Significant judgement is often required when estimating total contract costs and progress to completion on these arrangements, as well as whether a loss is expected to be incurred on the contract. Management uses historical experience, project plans and an assessment of the risks and uncertainties inherent in the arrangement to establish these estimates. Uncertainties include implementation delays or performance issues that may or may not be within the control of the Group. Changes in these estimates could result in a material impact on revenues and net earnings.

Revenue for hardware that does not require significant customisation, and where any software is considered incidental, is recognized under "ASBE No. 14 – Revenue", revenue is recognized provided that persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fee is fixed or determinable and collectibility is reasonably assured.

For hardware, delivery is considered to have occurred upon shipment provided that the risk of loss, and title in certain jurisdictions, have been transferred to the customer. For arrangements where the criteria for revenue recognition have not been met because legal title or the risk of loss on products was not transfer to the buyer until final payment had been received or where delivery had not occurred, revenue is deferred to a later period when title or the risk of loss passes either on delivery or on receipt of payment from the customer.

For further information on the Group's revenue recognition policies relating to our material revenue streams, please refer to Notes III. 19 to these consolidated financial statements.

#### *Estimation uncertainty*

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

# NOTES TO FINANCIAL STATEMENTS

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## III PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

### 24. Significant accounting judgements and estimates (continued)

#### *Estimation uncertainty (continued)*

##### *Impairment of fixed assets, construction in progress and intangible assets*

The Group determines whether fixed assets, construction in progress and intangible assets are impaired when there is an indication of impairment. This requires an estimation of the value in use of the cash-generating units to which the fixed assets, construction in progress and intangible assets were allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

An impairment loss is recognized when the carrying amount of fixed assets, construction in progress and intangible assets exceeds the recoverable amount. An impairment loss is charged to the income statement in the period in which it arises.

##### *Impairment of financial assets*

The Group determines whether financial assets are impaired by estimating the future cash flow from the financial assets. An impairment loss is recognized only if the carrying amount of an asset exceeds the present value of estimated future cash flows discounted at the financial asset's, original effective interest rate, taking into account the value of the related collateral. Where the actual future cash flows and less than expected, a material impairment loss may arise.

##### *Equity settled share expense*

The estimated cost of the share incentive scheme is recognized in income statements based on estimation of various assumptions.

One of the major factors that could impact the cost is the turnover rate of respective participants under the scheme. In situation that the actual turnover rate is less than the management estimation, such cost would be higher.

##### *Depreciation and amortization*

The Group depreciates items of fixed assets on the straight-line basis over their estimated useful lives, and after taking into account their estimated residual value, commencing from the date the items of fixed assets are placed into productive use. The estimated useful lives and dates that the Group places the items of fixed assets into productive use reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's fixed assets.

##### *Deferred tax assets*

Deferred tax assets are recognized for all unused tax losses, to the extent that it is likely that taxable profit will be available to utilize these unused tax losses. Significant judgments are needed from management to estimate the timing and amount of taxable profit as well as applicable tax rate in the future, with tax planning strategies, to determine the amount of the deferred tax assets that should be recognized.

# NOTES TO FINANCIAL STATEMENTS

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## III PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

### 25. First-time adoption of Accounting Standards for Business Enterprises

As mentioned in Note II, the Group started to implement the ASBE since 1 January, 2007. For the changes in accounting policies resulting from the first-time adoption of ASBE, the Group made the following changes in accordance with the regulations related to first-time adoption of ASBE.

#### (1) Change in accounting policies with retrospective adjustments

##### *Long-term equity investment*

Before the implementation of ASBE, long-term equity investment is recognized under equity method, the excess of the initial investment cost over the interest in the invested enterprise's net assets should be recognized as equity investment variance which was evenly amortized within a certain period. Before the promulgation of Caikuai [2003]10, the difference of the initial investment cost below the interest in the invested enterprise's net assets was recognized as equity investment variance which was evenly amortized within a certain period; and it was recognized as capital reserves with the promulgation of Caikuai [2003]10.

Details of accounting policies on long-term equity investment are set out on Notes III. 10 "Long-term equity investment" after the implementation of ASBE.

On the first time adoption date, for long-term equity investment under equity method, any credit side difference would be written off. Then, the remaining carrying amount of long-term equity investment are determined as investment cost at the first time adoption date.

Before 1 January 2007, equity method was applied to account for parent company's long-term equity investment in subsidiaries, and in accordance with ASBE, cost method is used, details are set out on Notes III. 10 "Long-term equity investment". On the first adoption date, retrospective adjustment for subsidiaries are regarded as the adjustments since the initial establishment and the Group retrospectively adjusted retained profits for the impact of changes in this accounting policy. Dividends received from subsidiaries are recognized as investment income.

##### *Financial assets*

Definitions on financial assets were not applicable before the implementation of ASBE. In accordance with the previous "Accounting Standards for Business Enterprises – Investments" and "Accounting System for Financial Institutions", the Group classified investments as "short-term" and "long-term" per liquidity and intended holding period and measured them at the lower of cost and market price, cost and recoverable amount respectively.

According to ASBE, the above investments are classified as financial assets at fair value through profit or loss or available-for-sale financial assets. Details on relevant accounting policies are set out in Notes III. 15 "Financial instruments".

On the first adoption date, financial asset recognized at fair value through profit or loss and available-for-sale financial assets are valued at fair value, and differences between carrying amount and fair value are adjusted in retained profits and capital reserves respectively.

# NOTES TO FINANCIAL STATEMENTS

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## III PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

### 25. First-time adoption of Accounting Standards for Business Enterprises (continued)

#### (1) Change in accounting policies with retrospective adjustments (continued)

##### *Capitalisation of research expenses*

Before the adoption of ASBE, research and development expenses are recognized in the income statement.

After the adoption of ASBE, the Group classified the expense for research and development as research costs and development costs. Those development costs that met the recognition conditions for intangible assets will be capitalized as intangible assets.

##### *Deferred tax assets*

The Group adopt the liability approach under tax-affecting accounting method to recognize income tax both before and after the adoption of ASBE. Deferred tax differences that occur after the adoption of ASBE are due to differences between the new and old Accounting Standards for Business Enterprise on other aspects.

##### *Government grants*

Before the adoption of ASBE, the government grants for specific purpose will be firstly recognized as specific payables and recognized as capital reserves when the project is completed. Unrecognized amounts could be written off. After the implementation of ASBE, government grant should be differentiated into government subsidies relating to income and relating to assets for accounting purpose, and recognized as current income or deferred income. Subsidies considered as capital investment by the government should be accounted for under "Specific payables". The portion that constitutes long-term assets should be transferred to the capital reserve, and the balance should be set off. The Group has made retrospective adjustments to government grants received in previous years in accordance with project periods stipulated in relevant contracts and has accordingly adjusted downwards the retained profits.

##### *Provision for retirement benefits*

The Group provides certain employees, who joined the Group before 1 January 2002, with post-retirement monthly pension payments. The employee entitled for the retirement pension will receive the monthly pension (up to a maximum amount of 50% of the monthly salary at retirement). Employees may be entitled to the pension for the period of their service with the Company up to 31 December 2002. The pension is only available to employees who are under employment by the Company until their retirement. The Company will pay the pension directly at the retirement of the employee on and as demanded basis.

Before the adoption of ASBE, there is no defined standard, regulations and rules for the provision for retirement benefits, costs for post-retirement pension are only recognized after payments are made.

After the adoption of ASBE, the Company recognized costs for retirement pension and made retrospective adjustments in retained profits in accordance with the independent actuarial report.

# NOTES TO FINANCIAL STATEMENTS

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## III PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

### 25. First-time adoption of Accounting Standards for Business Enterprises (continued)

#### (1) Change in accounting policies with retrospective adjustments (continued)

##### *Financial guarantee contracts*

Before the adoption of ASBE, there is no defined standard, regulations and rules on financial guarantee contracts which are not recognized.

After the adoption of ASBE, financial guarantee contracts are recognized as financial liabilities. A financial guarantee contract is recognized initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognized at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with "ASBE No. 13 — Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognized less, cumulative amortisation recognized in accordance with "ASBE No. 14 — Revenue".

##### *Consolidated financial statements*

Before the adoption of ASBE, minority interests are separately presented in the liabilities and equity interests of consolidated balance sheet, and be represented as the deductible items in the consolidated net profits of consolidated income statement.

After the adoption of ASBE, minority interests are separately presented in consolidated balance sheet as equity holders' interest; profit or loss attributable to parent and minority equity holders are presented separately in the consolidated income statement.

With first adoption of ASBE, the comparative figures of prior year's minority interests were adjusted in accordance with ASBE.

For the accounting policies changes mentioned above, the Group has made retrospective adjustments on the prior year's comparative figures in accordance with "ASBE No. 38 — First adoption of ASBE" and "ASBE Interpretation No. 1". The accumulated impact of the first-time adoption of ASBE on the Group and the Company as at 1 January 2006 and 31 December 2006 is as follows:



# NOTES TO FINANCIAL STATEMENTS

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## III PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

### 25. First-time adoption of Accounting Standards for Business Enterprises (continued)

#### (1) Change in accounting policies with retrospective adjustments (continued)

##### The Group

	2007				2006			
	Capital reserves	Surplus reserves	Retained profits	Minority interests	Capital reserves	Surplus reserves	Retained profits	Minority interests
Opening balance before retrospective adjustments	5,509,664	1,331,059	2,911,544	561,892	5,506,424	1,264,060	2,411,070	470,729
Retrospective adjustments:								
Financial assets	—	—	16,595	—	—	—	—	—
Capitalisation of research and development costs	—	—	104,236	—	—	—	149,933	—
Deferred income tax	—	—	2,755	—	—	—	10,869	—
Government grants	—	—	(2,803)	—	—	—	(4,926)	—
Provision for retirement benefits	—	—	(32,058)	—	—	—	(30,459)	—
Financial guarantee contracts	—	—	(3,689)	—	—	—	—	—
Opening balance after retrospective adjustments	5,509,664	1,331,059	2,996,580	561,892	5,506,424	1,264,060	2,536,487	470,729

##### The Company

	2007			2006		
	Capital reserves	Surplus reserves	Retained profits	Capital reserves	Surplus reserves	Retained profits
Opening balance before retrospective adjustments	5,536,137	769,603	3,766,426	5,532,896	769,603	3,355,950
Retrospective adjustments:						
Retrospective adjustments of investments in subsidiaries using cost method	(61,744)	—	(2,058,664)	(60,983)	—	(2,296,590)
Capitalisation of research and development costs	—	—	104,236	—	—	149,933
Deferred income tax	—	—	2,755	—	—	10,869
Government grants	—	—	(2,661)	—	—	(4,784)
Provision for retirement benefits	—	—	(32,058)	—	—	(30,459)
Financial guarantee contracts	—	—	(3,689)	—	—	—
Opening balance after retrospective adjustments	5,474,393	769,603	1,776,345	5,471,913	769,603	1,184,919

The accumulated impact of the first-time adoption of ASBE on the Group and the Company's net income for the year of 2006 is as follows:

# NOTES TO FINANCIAL STATEMENTS

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## III PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

### 25. First-time adoption of Accounting Standards for Business Enterprises (continued)

#### (1) Change in accounting policies with retrospective adjustments (continued)

##### The Group

	2006
Balance before retrospective adjustments	807,353
Adjustments:	
Financial assets	16,595
Capitalisation of research and development costs	(45,697)
Deferred income tax	(8,114)
Government grants	2,123
Provision for retirement benefits	(1,599)
Financial guarantee contracts	(3,689)
Balance after retrospective adjustments	766,972

##### The Company

	2006
Balance before retrospective adjustments	650,356
Adjustments:	
Retrospective adjustments of investments in subsidiaries using cost method	237,926
Capitalisation of research and development costs	(45,697)
Deferred income tax	(8,114)
Government grants	2,123
Provision for retirement benefits	(1,599)
Financial guarantee contracts	(3,689)
Balance after retrospective adjustments	831,306

#### (2) Change in accounting policies using prospective application method

Apart from the change in accounting policies with retrospective adjustments, in accordance with ASBE, the Group also implements changes in accounting policies using prospective application method as set out below.

##### Staff welfare

Before the implementation of ASBE, the Group accrued staff welfare on the basis of 14% of staff salary, and recognized in the income statement.

After the adoption of ASBE, the Group never accrued staff welfare on the basis of 14%, but rather recognized the salary and welfare payable as it occurred. In the first accounting period with the first adoption of ASBE, the differences between the staff welfare recognized under ASBE and originally accrued staff welfare expenses were charged in the income statement.

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## III PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

### 26. Change in accounting policies and accounting estimations

Apart from the impact of the first adoption of ASBE, the Group did not have other changes in accounting policies and accounting estimations.

## IV. TAXATION

The principal tax items and tax rates applicable to the Group were 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 was payable by the Group at tax rates of 3% and 5%, respectively, on its sales income and service income which were subject to business tax.
City maintenance and construction tax	—	In accordance with relevant PRC tax regulations and local regulations, city maintenance and construction tax was 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 was 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 withheld 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 was payable by the Group on its taxable income.
Overseas tax	—	Overseas taxes were payable in accordance with tax laws of various countries and regions.

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

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

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

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 it was the first profitable year for the company, it was exempted from enterprise income tax.

# NOTES TO FINANCIAL STATEMENTS

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## IV. 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 fifth 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 third profitable year for the company, it was subject to a reduced enterprise income tax rate of 7.5%.

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 subject to a reduced enterprise income tax rate of 15% for the period commencing 1 January 2007 and ending 31 December 2007.

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 year and a 50% reduction in enterprise income tax from the third to the fifth year. The current year was the fifth profitable year and hence, 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 third profitable year for the company, it was exempted from enterprise income tax.

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 third profitable year for the company, it was exempted from enterprise income tax.

Anhui Wantong Post and Telecommunications Company, Limited, was subject to an enterprise income tax rate of 33%.

Shenzhen Changfei Investment Company, Limited was subject to an enterprise income tax rate of 15%.

# NOTES TO FINANCIAL STATEMENTS

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## IV. TAXATION (continued)

The Enterprise Income Tax Law of the People's Republic of China (the "New Enterprise Income Tax Law") was passed at the fifth meeting of the Tenth National People's Congress and became effective on 1 January 2008. The New Enterprise Income Tax Law has introduced certain changes, including a unified income tax rate of 25% applicable to both domestic enterprises and foreign-invested enterprises. The Group made adjustments to the balance of deferred income tax assets and liabilities as at 31 December 2007 in accordance with transitional statutory tax rates in respect of temporary difference following the implementation of the New Income Tax Law on 1 January 2008.

As the detailed rules and administrative measures for the New Enterprise Income Tax Law have yet to be promulgated, it is not possible to make any reasonable assessment of any other future financial impact that the implementation of the New Income Tax Law might have on the Group.

## V. CONSOLIDATING SCOPE OF THE CONSOLIDATED FINANCIAL STATEMENT

Particulars of the principal subsidiaries of the Group are as below:

	Place of registration	Principal activities	Registered capital	Investment by the Group	Percentage of equity interests	Percentage of voting power		Organization number
						Direct	Indirect	
Shenzhen Zhongxing Software Company Limited	Shenzhen	Manufacturing	RMB50,000,000	RMB49,000,000	73%	25%	98%	75250847-2
ZTE (H.K.) Limited	Hong Kong	Information and technology	HKD50,000,000	HKD50,000,000	100%	—	100%	N/A
Shenzhen Zhongxing Telecom Equipment Technology & Service Co., Ltd.	Shenzhen	Telecommunication and services	RMB50,000,000	RMB50,000,000	90%	10%	99%	76199710-8
ZTE Kangxun Telecom Company, Limited	Shenzhen	Telecommunication and related equipment manufacturing	RMB50,000,000	RMB45,000,000	90%	—	90%	279285671
ZTE Telecom India Private Limited	India	Telecommunication and related equipment manufacturing	RMB1,654,000	RMB1,654,000	100%	—	100%	N/A
Nanjing Zhong Xing Software Development Technology Co., Ltd.	Nanjing	Manufacturing	USD7.23 Million	RMB24.28 Million	76%	—	76%	74537900-0
Shenzhen Changfei Investment Co., Ltd.	Shenzhen	Manufacturing	RMB30,000,000	RMB15,300,000	51%	—	51%	75860475-6
深圳市中兴移动通信有限公司	Shenzhen	Telecommunication and related equipment manufacturing	RMB39,583,000	RMB45,790,000	80%	—	80%	73205874-2
Wuxi Zhongxing Optoelectronics Technologies Co., Ltd.	Wuxi	Telecommunication and related equipment manufacturing	RMB10,000,000	RMB6,500,000	65%	—	65%	71869554-2
Anhui Wantong Postal and Telecom Co., Ltd.	Hefei	Telecommunication and related equipment manufacturing	RMB22,210,000	RMB15,700,000	51%	—	51%	14897470-9
ZTE Integration Telecom Ltd.	Shenzhen	Telecommunication and related equipment manufacturing	RMB55,000,000	RMB41,250,000	75%	5%	80%	74886449-0
Shanghai Zhongxing Telecom Equipment Technology & Service Co., Ltd.	Shanghai	Telecommunication and services	RMB10,000,000	RMB5,100,000	51%	—	51%	7623980-0

In 2007, the Group established 22 new subsidiaries. These subsidiaries are not principal operating subsidiaries and their results have been consolidated in the Group.

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

### 1. Cash on hand and at bank

		2007			2006 (Restated)		
		Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Cash	RMB	956	1.0000	956	285	1.0000	285
	USD	790	7.3046	5,771	1,004	7.8087	7,840
	HKD	97	0.9364	91	95	1.0047	95
	THB	305	0.2431	74	460	0.2178	100
	SAR	369	1.9428	717	179	2.0879	374
	EUR	56	10.6669	597	—	—	—
	BRL	3	4.1337	12	16	3.6523	58
	MRO	9,156	0.0286	262	55,424	0.0293	1,624
	DZD	1,750	0.1020	179	—	—	—
	INR	1,332	0.1852	247	6,349	0.1757	1,116
	PKR	472	0.1191	56	871	0.1283	112
	IRR	94,437	0.0008	76	—	—	—
	Others			522			442
	Subtotal			9,560			12,046

# NOTES TO FINANCIAL STATEMENTS

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

### 1. Cash on hand and at bank (continued)

		2007			2006 (Restated)		
		Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Bank deposit	RMB	3,323,708	1.0000	3,323,708	1,888,669	1.0000	1,888,669
	USD	187,924	7.3046	1,372,710	196,734	7.8087	1,536,237
	HKD	38,325	0.9364	35,888	183,311	1.0047	184,173
	IQD	792,665	0.0064	5,073	785,968	0.0062	4,873
	BRL	7,374	4.1337	30,482	1,565	3.6523	5,716
	JPY	45,205	0.0641	2,898	70,793	0.0656	4,644
	PKR	496,485	0.1191	59,131	296,882	0.1283	38,090
	EGP	14,791	1.3257	19,608	9,777	1.3699	13,394
	RUB	17,913	0.2986	5,349	66,091	0.3003	19,847
	SEK	1,425	1.1265	1,605	17,503	1.1418	19,985
	THB	3,697	0.2431	899	25,725	0.2178	5,603
	IDR	8,138,452	0.0008	6,511	6,473,333	0.0009	5,826
	COP	1,141,295	0.0038	4,337	1,543,143	0.0035	5,401
	VND	245,597	0.0005	123	5,698,000	0.0005	2,849
	INR	12,040	0.1852	2,230	98,549	0.1757	17,315
	EUR	123,835	10.6669	1,320,936	23,042	10.2665	236,561
	VEB	630,716	0.0034	2,144	1,248,889	0.0036	4,496
	ARS	644	2.3189	1,493	1,781	2.5271	4,501
	DZD	238,239	0.1020	24,300	199,541	0.1132	22,588
	GBP	308	14.5807	4,491	236	15.5549	3,671
	PHP	13,916	0.1771	2,465	—	—	—
	LYD	165	5.9387	980	185	6.1005	1,129
	AUD	101	6.4236	649	10,451	6.1559	64,335
	SAR	321	1.9428	624	213	2.0879	445
	TJR	4,290	2.1084	9,045	1,833	2.2789	4,177
	MYR	9,371	2.1870	20,494	—	—	—
	NPR	7,299	0.1155	843	—	—	—
	XOF	146,822	0.0164	2,408	—	—	—
	AED	2,338	1.9879	4,648	—	—	—
	BDT	8,121	0.1074	872	—	—	—
	Others			22,380			9,391
	Subtotal			6,289,324			4,103,916



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

### 1. Cash on hand and at bank (continued)

	2007			2006 (Restated)		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Other currency RMB	172,328	1.0000	172,328	183,511	1.0000	183,511
USD	271	7.3046	1,980	1,063	7.8087	8,301
HKD	246	0.9364	230	4	1.0047	4
THB	40,091	0.2431	9,746	—	—	—
JPY	—	—	—	49,986	0.0656	3,279
Others			2			3
Subtotal			184,286			195,098
Total			6,483,170			4,311,060

Pledged deposits	2007	2006
Deposits for bills	137,158	134,685
Deposits for performance bonds	5,263	3,312
Frozen for litigations	31,000	31,000
	173,421	168,997

Current bank deposits earn interest income based on current deposit interest rate. The period for short-term time deposit varies from 7 days to 3 months. The short-term time deposits earn interest income based on corresponding time deposits interest rate, subject to the Group's cash needs.

### 2. Derivative financial assets

	2007	2006 (Restated)
Derivatives-Forward currency contracts	123,644	—
Equity investment	—	33,288
	123,644	33,288

Management deems that there is no significant restriction for the realization of derivative financial assets.

# NOTES TO FINANCIAL STATEMENTS

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

### 3. Bills receivable

	2007	2006 (Restated)
Bank acceptance bills	745,257	461,300
Commercial acceptance bills	911,001	1,197,106
Total	1,656,258	1,658,406

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

### 4. Trade receivables

Trade receivables arising from telecommunications system construction projects and the provision of services are recognized according to due dates stipulated in relevant contracts and agreements. No credit term is normally provided in respect of trade receivables arising from the sales of goods, although major customers may be given a grace period of up to 1 month.

#### The Group

	2007			2006 (Restated)		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
RMB	2,728,635	1.0000	2,728,635	2,593,325	1.0000	2,593,325
USD	419,704	7.3046	3,065,770	226,191	7.8087	1,766,258
EUR	38,699	10.6669	412,798	10,505	10.2665	107,850
PKR	2,638,900	0.1191	314,293	2,894,521	0.1283	371,367
INR	1,271,706	0.1852	235,520	88,282	0.1757	15,511
Others			341,933			475,317
Total			7,098,949			5,329,628

Aging analysis of trade receivables was as follows:

	2007	2006 (Restated)
Within one year	6,870,741	4,861,538
Between one to two years	221,696	448,583
Between two to three years	6,512	13,124
Over three years	—	6,383
Total	7,098,949	5,329,628

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

### 4. Trade receivables (continued)

#### The Group (continued)

	2007				2006 (Restated)			
	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
Individually significant balances	3,296,926	40.43%	670,836	20.35%	1,998,600	33.95%	243,177	12.17%
Not significant balances	4,857,488	59.57%	384,629	7.92%	3,887,885	66.05%	313,680	8.07%
	<b>8,154,414</b>	<b>100%</b>	<b>1,055,465</b>		5,886,485	100%	556,857	

Specific bad debt provision was accrued for those trade receivables with objective evidences of impairment.

Bad debt provision of trade receivables was as follows:

	Beginning balance of the year	Provision for the year	Decrease for the year		Ending balance of the year
			Written back	Written off	
2007	556,857	498,608	—	—	1,055,465
2006 (Restated)	445,246	111,611	—	—	556,857

The top five balances of trade receivables amounted to RMB2,077,764,000 (31 December 2006: RMB2,108,159,000), accounting for 25.48% of the total balance of trade receivables (31 December 2006: 35.81%) of the Group as at the end of the year.

Of the balance of trade receivables as at the end of the year, RMB943,000 was due from shareholders holding 5% or more in the shares. Please refer to Note VIII. "The relationships and transactions among related parties" (31 December 2006: RMB2,074,000).

Transfer of risk and rewards of trade receivables not satisfied the derecognition condition is separately classified as "Factored trade receivables" amounting to RMB153,668,000 (31 December 2006: RMB152,848,000)

As at balance date, Aging analysis of not overdue and no impairment, as well as overdue but no impairment trade receivables was as follows:

	2007	2006 (Restated)
Not overdue and no impairment	1,940,356	1,183,278
Overdue but no impairment within one year	4,313,249	3,335,581
	<b>6,253,605</b>	4,518,859

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## VI. 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

	2007			2006 (Restated)		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
RMB	2,533,099	1.0000	2,533,099	2,291,767	1.0000	2,291,767
USD	717,414	7.3046	5,240,422	372,263	7.8087	2,906,890
HKD	101,305	0.9364	94,862	78,750	1.0047	79,120
EUR	93,039	10.6669	992,438	17,629	10.2665	180,988
Others			84,785			294,443
Total			8,945,606			5,753,208

Aging analysis of trade receivables was as follows:

	2007	2006 (Restated)
Within one year	7,984,658	5,199,839
Between one to two years	682,223	375,495
Between two to three years	129,680	135,215
Over three years	149,045	42,659
	8,945,606	5,753,208

	2007				2006 (Restated)			
	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
Individually significant balances	2,650,376	26.95%	610,258	23.03%	1,621,186	26.05%	214,719	13.24%
Not significant balances	7,183,078	73.05%	277,590	3.86%	4,601,250	73.95%	254,509	5.53%
	9,833,454	100%	887,848		6,222,436	100%	469,228	

Bad debt provision of trade receivables was as follows:

	Beginning balance of the year	Provision for the year	Decrease for the year		Ending balance of the year
			Written back	Written off	
2007	469,228	418,620	—	—	887,848
2006 (Restated)	411,737	57,491	—	—	469,228

The top five balances of trade receivables amounted to RMB4,013,185,000 (31 December 2006: RMB2,195,129,000), accounting for 40.81% of the total balance of trade receivables of the Company as at the end of the year (31 December 2006: 35.28%).

No outstanding amount due from shareholders holding 5% or more in the share as at the end of the year (31 December 2006: Nil).

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## VI. 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* (continued)

Transfer of risk and rewards of trade receivables not satisfied the derecognition condition is separately classified as "Factored trade receivables" amounting to RMB278,668,000 (31 December 2006: RMB275,830,000).

As at balance date, Aging analysis of not overdue and no impairment, as well as overdue but no impairment trade receivables as follows:

	2007	2006 (Restated)
Not overdue and no impairment	1,786,532	1,622,895
Overdue but no impairment within one year	6,008,454	3,446,014
	<b>7,794,986</b>	5,068,909

### 5. Prepayments

Aging analysis of prepayments was as follows:

	2007		2006 (Restated)	
	Balance	Percentage	Balance	Percentage
Within one year	311,362	100%	49,749	96.12%
Between one to two years	—	—	2,008	3.88%
Total	<b>311,362</b>	<b>100%</b>	51,757	100%

No outstanding amount due from shareholders holding 5% or more in the shares as at the end of the year (31 December 2006: Nil).

No supplier who accounted for 30% or more of the total amount of prepayments as at the end of the year.

### 6. Other receivables

#### *The group*

Aging analysis of other receivables was as follows:

	2007	2006 (Restated)
Within one year	655,230	288,459
Between one to two years	21,067	144,550
Between two to three years	13,592	8,030
	<b>689,889</b>	441,039

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

### 6. Other receivables (continued)

#### The group (continued)

	2007				2006 (Restated)			
	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
Individually significant balances	42,719	6.19%	—	—	74,664	16.93%	—	—
Not significant balances	647,170	93.81%	—	—	366,375	83.07%	—	—
	<b>689,889</b>	<b>100.00%</b>	<b>—</b>	<b>—</b>	<b>441,039</b>	<b>100.00%</b>	<b>—</b>	<b>—</b>

The top five balances of other receivables amounted to RMB137,856,000 (31 December 2006: RMB102,539,000), accounting for 11.93% of the total balance of other receivables of the Group as at the end of the year (31 December 2006: 11.62%)

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

As at the balance sheet date, all balances are overdue but no impairment.

#### The company

	2007	2006 (Restated)
Within one year	<b>679,584</b>	67,929
Between one to two years	<b>64,419</b>	542,977
Between two to three years	<b>487,966</b>	529,674
Over three years	<b>257,393</b>	79,519
	<b>1,489,362</b>	<b>1,220,099</b>

	2007				2006 (Restated)			
	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
Individually significant balances	42,719	2.87%	—	—	74,664	6.12%	—	—
Not significant balances	1,446,643	97.13%	—	—	1,145,435	93.88%	—	—
	<b>1,489,362</b>	<b>100%</b>	<b>—</b>	<b>—</b>	<b>1,220,099</b>	<b>100%</b>	<b>—</b>	<b>—</b>

The top five balances of other receivables amounted to RMB521,020,000 (31 December 2006: RMB862,165,000), accounting for 29.95% of the total balance of other receivables of the Company at the end of the year (31 December 2006: 53.35%).

No outstanding amount due from shareholders holding 5% or more in the shares as at the end of the year (31 December 2006: Nil).

As at the balance sheet date, all balances are overdue but no impairment.

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

### 7. Inventories

	2007	2006 (Restated)
Raw materials	2,546,562	1,313,470
Materials under sub-contract processing	50,962	58,215
Work-in-progress	735,703	713,127
Finished goods	2,553,963	845,005
	<b>5,887,190</b>	2,929,817
Less: provision for impairment	<b>(523,760)</b>	(448,662)
	<b>5,363,430</b>	2,481,155

An analysis of inventories provision was as follows:

	2007			Closing balance of the year
	Beginning balance of the year	Provision for the year	Reversal for the year	
Raw materials	131,171	—	(16,667)	114,504
Materials under sub-contract processing	—	7,779	—	7,779
Work-in-progress	8,577	29,289	—	37,866
Finished goods	308,914	54,697	—	363,611
	<b>448,662</b>	<b>91,765</b>	<b>(16,667)</b>	<b>523,760</b>

	2006 (Restated)			Closing balance of the year
	Beginning balance of the year	Provision for the year	Reversal for the year	
Raw materials	86,161	45,010	—	131,171
Materials under sub-contract processing	1,599	—	(1,599)	—
Work-in-progress	5,779	2,798	—	8,577
Finished goods	422,419	—	(113,505)	308,914
	<b>515,958</b>	<b>47,808</b>	<b>(115,104)</b>	<b>448,662</b>

Inventory is stated at the lower of cost and net realisable value, where the cost exceeds the net realisable value, impairment is made and recognized as expenses. The impairment of inventory was reversed during the year following the sale of such inventory.



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

### 8. Construction contracts

	2007	2006 (Restated)
Amount due from customers for contract work	8,606,291	5,833,480
Amount due to customers for contract work	(1,597,314)	(996,275)
	7,008,977	4,837,205
Contract costs incurred plus recognized profits less recognized losses to date	22,777,810	21,619,372
Less: progress billings	(15,768,833)	(16,782,167)
	7,008,977	4,837,205
Construction work	4,942,904	3,094,588
Goods delivered	2,066,073	1,742,617
Total	7,008,977	4,837,205

### 9. Available-for-sale financial assets

#### The Group

	2007	2006 (Restated)
Available-for-sale financial assets	43,464	43,488

	2007			Closing balance of the year
	Beginning balance of the year	Additions	Reductions	
深圳市創新投資集團有限公司	5,000	—	—	5,000
北京中視聯數字系統有限公司	3,240	—	—	3,240
中移鼎訊通信股份有限公司	32,000	—	—	32,000
中興智能交通系統(北京)有限公司	1,024	—	—	1,024
SunTop Technologies Ltd.	24	—	(24)	—
杭州中興發展有限公司	2,000	—	—	2,000
貴州艾瑪特信息超市項目開發有限公司	200	—	—	200
	43,488	—	(24)	43,464

	2006 (Restated)			Closing balance of the year
	Beginning balance of the year	Additions	Reductions	
深圳市創新投資集團有限公司	5,000	—	—	5,000
北京中視聯數字系統有限公司	3,240	—	—	3,240
中移鼎訊通信股份有限公司	32,000	—	—	32,000
中興智能交通系統(北京)有限公司	1,024	—	—	1,024
SunTop Technologies Ltd.	24	—	—	24
杭州中興發展有限公司	2,000	—	—	2,000
貴州艾瑪特信息超市項目開發有限公司	—	200	—	200
	43,288	200	—	43,488

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

### 9. Available-for-sale financial assets (continued)

#### The Company

	2007	2006 (Restated)
Available-for-sale financial assets	41,464	41,488

	2007			Closing balance of the year
	Beginning balance of the year	Additions	Reductions	
深圳市創新投資集團有限公司	5,000	—	—	5,000
北京中視聯數字系統有限公司	3,240	—	—	3,240
SunTop Technologies Ltd.	24	—	(24)	—
中興智能交通系統（北京）有限公司	1,024	—	—	1,024
中移鼎訊通信股份有限公司	32,000	—	—	32,000
貴州艾瑪特信息超市項目開發有限公司	200	—	—	200
	41,488	—	(24)	41,464

	2006 (Restated)			Closing balance of the year
	Beginning balance of the year	Additions	Reductions	
深圳市創新投資集團有限公司	5,000	—	—	5,000
北京中視聯數字系統有限公司	3,240	—	—	3,240
SunTop Technologies Ltd.	24	—	—	24
中興智能交通系統（北京）有限公司	1,024	—	—	1,024
中移鼎訊通信股份有限公司	32,000	—	—	32,000
貴州艾瑪特信息超市項目開發有限公司	—	200	—	200
	41,288	200	—	41,488

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

### 10. Long-term trade receivables

#### The Group

	2007	2006 (Restated)
Long-term trade receivables	762,395	372,703
Subtract: Long-term trade receivables due within one year	—	—
Bad debt provision	(181,388)	—
	581,007	372,703

Bad debt provision of Long-term trade receivables was as follows:

	Beginning balance of the year	Provision for the year	Reduction for the year		Ending balance of the year
			Written back	Written off	
2007	—	181,388	—	—	181,388
2006 (Restated)	—	—	—	—	—

As at the balance sheet date, the balance was not overdue. The impairment was indicated by objective evidence.

Transfer of risk and rewards of Long-term trade receivables not satisfied the derecognition condition was separately classified as “Factored Long-term trade receivables” amounting to RMB3,142,709,000 (31 December 2006: RMB1,399,206,000).

#### The company

	2007	2006 (Restated)
Long-term trade receivables	583,103	328,166
Subtract: Long-term trade receivables due within one year	—	—
Bad debt provision	(181,388)	—
	401,715	328,166

Bad debt provision of Long-term trade receivables was as follows:

	Beginning balance of the year	Provision for the year	Decrease for the year		Ending balance of the year
			Written back	Written off	
2007	—	181,388	—	—	181,388
2006 (Restated)	—	—	—	—	—

Transfer of risk and rewards of Long-term trade receivables not satisfied the derecognition condition was separately classified as “Factored Long-term trade receivables” amounting to RMB3,142,709,000 (31 December 2006: RMB1,394,970,000).

As at the balance sheet date, the balance was not overdue. The impairment was indicated by objective evidence.

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

### 11. Long-term equity investments

#### The Group

Equity method		2007	2006 (Restated)
Jointly-controlled entities	(1)	2,255	5,936
Associates	(2)	134,764	51,257
Less: Impairment for long-term equity Investment		—	—
		137,019	57,193

#### The Group – 2007

##### (1) Associates

	Share of registered capital	Initial investment	Accumulated additional/(reduced) investment cost	Equity adjustment				Ending balance of the year
				Changes in profit and loss during the year	Cash bonus during the year	Accumulated change in profit and loss	Provision for impairment Additions for the year	
		1	2			3	4	5=1+2+3+4
Beijing Zhongxingxin Communication Equipment Company, Limited	50%	2,500	(4,465)	649	—	1,965	—	—
Bestel Communications Ltd.	50%	2,050	—	135	—	205	—	2,255
		4,550	(4,465)	784	—	2,170	—	2,255

##### (2) Jointly-controlled entities

	Share of registered capital	Initial investment	Accumulated additional/(reduced) investment cost	Equity adjustment				Ending balance of the year
				Changes in profit and loss during the year	Cash bonus during the year	Accumulated change in profit and loss	Provision for impairment Additions for the year	
		1	2			3	4	5=1+2+3+4
深圳市富德康电子有限公司	30%	1,800	—	1,203	—	928	—	2,728
ZTE IC Design Co., Ltd	34%	30,000	(1,844)	4,505	—	(10,357)	—	17,799
Beijing Zhongxing Yuanjing Technology Co., Ltd	30%	3,000	(3,000)	(4,076)	—	—	—	—
KAZNURTEL Limited Liability Company	49%	1,012	—	—	—	1,465	—	2,477
Wuxi Kaier Technology Co., Ltd	30.88%	3,500	—	2,794	—	4,156	—	7,656
Shenzhen Zhongxing Xinyu FPC Company, Limited	22.73%	2,500	—	3,548	(1,177)	3,701	—	6,201
Shenzhen Weigao Semiconductor Company, Limited	40%	4,000	—	(142)	—	(1,426)	—	2,574
Shenzhen Decang Technology Company Limited	30%	1,000	—	9,608	—	12,219	—	13,219
深圳市聚飛光電有限公司	30%	4,500	—	4,415	—	4,094	—	8,594
中興軟件技術(南昌)有限公司	30%	4,500	—	114	—	(1,092)	—	3,408
Shenzhen Smart Electronics Company, Limited	30%	3,335	—	3,017	—	3,819	—	7,154
深圳市鼎力網絡有限公司	35%	3,500	—	(326)	—	(639)	—	2,861
WANAAG Communications Limited	45%	351	—	—	—	(258)	—	93
中興能源有限公司	23.26%	60,000	—	—	—	—	—	60,000
		122,998	(4,844)	24,660	(1,177)	16,610	—	134,764

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

### 11. Long-term equity investments (continued)

#### The Group – 2007 (continued)

#### (2) Jointly-controlled entities (continued)

Major financial information of jointly-controlled entities and associates:

	Place of registration	Principal activities	Registered capital	Percentage of shareholding	Proportion of the right to vote
<b>Associates</b>					
Bestel Communications Ltd	Republic of Cyprus	IT industry	Cyrus pounds 600,000	50%	50%
<b>Jointly-controlled entities</b>					
深圳市富德康電子有限公司	China	Machinery and electronic equipment wholesale trade	RMB280,000	30%	30%
ZTE IC Design Co., Ltd	China	Computer and related equipment manufacturing industry	RMB64,000,000	34%	34%
KAZNURTEL Limited Liability Company	Kazakhstan	Computer and related equipment manufacturing industry	USD3,000,000	49%	49%
Wuxi Kaier Technology Co., Ltd	China	Machinery equipment	RMB11,332,729	30.88%	30.88%
Shenzhen Zhongxing Xinyu FPC Company, Limited	China	Machinery equipment	RMB11,000,000	22.73%	22.73%
Shenzhen Weigao Semiconductor Company, Limited	China	Machinery equipment	RMB10,000,000	40%	40%
Shenzhen Decang Technology Company Limited	China	Machinery equipment	RMB2,500,000	30%	30%
深圳市聚飛光電有限公司	China	Machinery equipment	RMB18,000,000	30%	30%
中興軟件技術(南昌)有限公司	China	Computer Application Services	RMB15,000,000	30%	30%
Shenzhen Smart Electronics Company, Limited	China	Machinery equipment	RMB17,151,174	30%	30%
深圳市鼎力網絡有限公司	China	Communications equipment manufacturing	RMB10,000,000	35%	35%
WANAAG Communications Limited	Hong Kong	Communication Services	USD100,000	45%	45%
中興能源有限責任公司	China	Energy industry	RMB1,290,000,000	23.26%	23.26%

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

### 11. Long-term equity investments (continued)

#### The Group – 2007 (continued)

	2007			
	Total assets	Total liabilities	Operating income	Net profit
<b>Associates</b>				
Bestel Communications Ltd	4,606	96	—	270
<b>Jointly-controlled entities</b>				
深圳市富德康電子有限公司	29,841	21,467	52,323	4,009
ZTE IC Design Co., Ltd	116,375	64,027	150,091	13,250
KAZNURTEL Limited Liability Company	7,164	2,109	—	—
Wuxi Kaier Technology Co., Ltd	78,612	54,142	270,923	9,048
Shenzhen Zhongxing Xinyu FPC Company, Limited	114,381	87,102	129,443	15,609
Shenzhen Weigao Semiconductor Company, Limited	37,259	30,824	43,153	(355)
Shenzhen Decang Technology Company Limited	126,493	78,929	228,724	32,027
深圳市聚飛光電有限公司	77,980	42,789	72,725	14,717
中興軟件技術(南昌)有限公司	53,563	42,203	43,391	380
Shenzhen Smart Electronics Company, Limited	50,997	27,345	71,063	10,057
深圳市鼎力網絡有限公司	8,486	313	1,923	(931)
WANAAG Communications Limited	2,343	3,236	2,644	—
中興能源有限責任公司	258,000	—	—	—

#### The Group – 2006 (Restated)

##### (1) Associates

	Share of registered capital	Initial investment	Accumulated additional/ (reduced) investment cost	Equity adjustment					Ending balance of the year	
				Changes in profit and loss during the year	Cash bonus during the year	Accumulated change in profit and loss	Provision for impairment			
		1	2			3	Additions for the year	Accumulated additions	4	5=1+2+3+4
Beijing Zhongxingxin Communication Equipment Company, Limited	50%	2,500	—	(797)	—	1,316	—	—	—	3,816
Bestel Communications Ltd.	50%	2,050	—	145	—	70	—	—	—	2,120
		4,550	—	(652)	—	1,386	—	—	—	5,936

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

### 11. Long-term equity investments (continued)

#### The Group – 2006 (Restated) (continued)

##### (2) Jointly-control entities

	Share of registered capital	Initial investment	Accumulated additional/(reduced) investment cost	Equity adjustment					Ending balance of the year	
				Changes in profit and loss during the year	Cash bonus during the year	Accumulated change in profit and loss	Provision for impairment			
		1	2			3	Additions for the year	Accumulated additions	4	5=1+2+3+4
深圳市富德康電子有限公司	30%	1,800	–	(275)	–	(275)	–	–	–	1,525
ZTE IC Design Co., Ltd	40%	30,000	–	2,608	–	(14,174)	–	–	–	15,826
Beijing Zhongxing Yuanjing Technology Co., Ltd	30%	3,000	–	33	–	(2,684)	–	–	–	316
KAZNURTEL Limited Liability Company	49%	1,012	–	–	–	1,465	–	–	–	2,477
Wuxi Kaier Technology Co., Ltd	30.88%	3,500	–	1,264	–	1,362	–	–	–	4,862
Shenzhen Zhongxing Xinyu FPC Company, Limited	22.73%	2,500	–	1,455	–	1,330	–	–	–	3,830
Shenzhen Weigao Semiconductor Company, Limited	40%	4,000	–	(260)	–	(1,284)	–	–	–	2,716
Shenzhen Decang Technology Company Limited	30%	1,000	–	4,004	–	3,815	–	–	–	4,815
深圳市聚飛光電有限公司	30%	4,500	–	(168)	–	(320)	–	–	–	4,180
中興軟件技術(南昌)有限公司	30%	4,500	–	939	–	(1,206)	–	–	–	3,294
Shenzhen Smart Electronics Company, Limited	30%	3,335	–	(849)	–	801	–	–	–	4,136
深圳市鼎力網絡有限公司	35%	3,500	–	(313)	–	(313)	–	–	–	3,187
WANAAG Communications Limited	45%	351	–	(258)	–	(258)	–	–	–	93
		62,998	–	8,180	–	(11,741)	–	–	–	51,257

#### The Company

		2007	2006 (Restated)
Equity investment under cost method			
Subsidiaries	(3)	577,351	560,240
Equity investment under equity method			
Jointly-controlled entities	(4)	–	3,816
Associates	(5)	83,684	21,913
Less: Impairment for long-term equity investment	(6)	(113,065)	(113,065)
		547,970	472,904



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

### 11. Long-term equity investments (continued)

#### The Company – 2007

##### (3) Subsidiaries

	Beginning				Ending balance of the year
	Initial Amount	balance of the year	Additions	Reductions	
ZTE Kangxun Telecom Co., Ltd.	45,000	45,000	–	–	45,000
ZTE (USA) Inc.	5,381	5,381	–	–	5,381
Wuxi Zhongxing Optoelectronics Technologies Company, Limited	3,920	3,920	–	–	3,920
ZTE (H.K.) Limited	53,200	53,200	–	–	53,200
Anhui Wantong Posts and Telecommunications Company, Limited	15,698	15,698	–	–	15,698
Telrise (Cayman) Telecom Ltd.	15,770	21,165	–	–	21,165
Shenzhen Guoxin Electronics Development Company, Limited	29,700	29,700	–	–	29,700
Congo-Chine Telecom S.A.R.L.	55,800	55,800	–	–	55,800
深圳市中興移動通信有限公司	3,900	3,900	–	–	3,900
Shenzhen Zhongxing Mobile Technology Co., Ltd.	45,799	45,799	–	–	45,799
南京中興軟創科技有限責任公司	24,282	23,982	–	–	23,982
ZTE (UK) Ltd.	4,533	5,286	–	–	5,286
ZTE Do Brasil LTDA	10,058	10,058	8,515	–	18,573
Shenzhen Zhongxing Software Company Limited	38,609	36,500	–	–	36,500
ZTE Integration Telecom Ltd.	41,250	41,250	–	–	41,250
ZTE Wistron Telecom AB	2,445	3,137	–	–	3,137
ZTE-Communication Technologies, Ltd.	4,188	4,188	–	–	4,188
ZTE Corporation Mexico S. DE R. L DE C.V.	41	41	–	–	41
Shenzhen Changfei Investment Company Limited	15,300	15,300	–	–	15,300
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	2,971	–	–	2,971
Guangdong New Pivot Technology & Service Company Limited	13,500	13,500	–	–	13,500
Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited	45,000	45,000	–	–	45,000
Shanghai Zhongxing Telecom Equipment Technology & Service Company, Limited	5,100	5,100	–	–	5,100
ZTE Holdings (Thailand) Co., Ltd.	10	10	–	–	10
ZTE (Thailand) Co., Ltd.	2,044	2,044	2,996	–	5,040
Shenzhen Special Equipment Company, Limited	540	540	–	–	540
ZTE Telecom India Private Ltd.	1,654	1,654	–	–	1,654
ZTE Romania S.R.L.	827	827	–	–	827
ZTE (Malaysia) Corporation SDN.BHD.	496	496	–	–	496
ZiMax (Cayman) Holding Ltd.	45,485	45,485	–	–	45,485
西安中興精誠通訊有限公司	11,396	11,396	–	–	11,396
Closed Joint Stock Company TK Mobile	4,258	4,258	–	–	4,258
PT. ZTE Indonesia	1,654	1,654	–	–	1,654
深圳中興力維技術有限公司	6,000	6,000	–	–	6,000
深圳市中聯成電子發展有限公司	–	–	600	–	600
深圳市興意達通訊技術有限公司	–	–	5,000	–	5,000
		560,240	17,111	–	577,351

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

### 11. Long-term equity investments (continued)

#### The Company – 2007 (continued)

##### (4) Jointly-controlled entities

	Share of registered capital	Initial investment	Accumulated additional/(reduced) investment cost	Equity adjustment					Ending balance of the year
				Changes in profit and loss during the year	Cash bonus during the year	Accumulated change in profit and loss	Provision for impairment		
							Additions for the year	Accumulated additions	
1	2	3	4	5=1+2+3+4					
Beijing Zhongxingxin Communication Equipment Company, Limited	50%	2,500	(4,465)	649	–	1,965	–	–	–

##### (5) Associates

	Share of registered capital	Initial investment	Accumulated additional/(reduced) investment cost	Equity adjustment					Ending balance of the year
				Changes in profit and loss during the year	Cash bonus during the year	Accumulated change in profit and loss	Provision for impairment		
							Additions for the year	Accumulated additions	
1	2	3	4	5=1+2+3+4					
ZTE IC Design Co., Ltd	34%	30,000	(1,844)	4,505	–	(10,357)	–	–	17,799
Beijing Zhongxing Yuanjing Technology Co., Ltd	30%	3,000	(3,000)	–	–	–	–	–	–
KAZNURTEL Limited Liability Company	49%	1,012	–	–	–	1,465	–	–	2,477
中興軟件技術(南昌)有限公司	30%	4,500	–	114	–	(1,092)	–	–	3,408
中興能源有限責任公司	23.26%	60,000	–	–	–	–	–	–	60,000
		98,512	(4,844)	4,619	–	(9,984)	–	–	83,684

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

### 11. Long-term equity investments (continued)

#### *The Company – 2007 (continued)*

#### (6) *Impairment for Long-term equity investment*

	<b>Opening and ending balance of the year</b>
ZTE (USA) Inc.	5,381
Telrise (Cayman) Telecom Ltd.	12,970
Shenzhen Guoxin Electronics Development Company, Limited	23,767
Yangzhou Zhongxing Mobile Telecom Company, Limited	3,900
深圳市中興移動通信有限公司	17,657
ZTE (UK) Ltd.	4,533
ZTE Do Brasil LTDA	10,059
ZTE Integration Telecom Ltd.	4,591
ZTE Wistron Telecom AB	2,030
ZTE Corporation Mexico S. DE R. L DE C.V.	41
Zhongxing Telecom Pakistan (Private) Ltd.	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited	9,656
ZTE Holdings (Thailand) Co., Ltd.	10
ZTE (Thailand) Co., Ltd.	205
ZTE Telecom India Private Ltd.	1,654
ZTE Romania S.R.L.	827
ZTE (Malaysia) Corporation SDN.BHD.	496
ZiMax (Cayman) Holding Ltd.	12,317
	<b>113,065</b>

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### 11. Long-term equity investments (continued)

#### The Company – 2006 (Restated)

##### (3) Subsidiaries

	Initial Amount	Opening balance of the year	Additions	Reductions	Ending balance of the year
ZTE Kangxun Telecom Co., Ltd.	45,000	45,000	—	—	45,000
Shenzhen Zhongxing Mobile Telecom Equipment Co., Limited	9,000	9,430	—	(9,430)	—
ZTE (USA) Inc.	5,381	5,381	—	—	5,381
Wuxi Zhongxing Optoelectronics Technologies Company, Limited	3,920	3,920	—	—	3,920
ZTE (H.K.) Limited	53,200	53,200	—	—	53,200
Anhui Wantong Posts and Telecommunications Company, Limited	15,698	15,698	—	—	15,698
Telrise (Cayman) Telecom Ltd.	15,770	21,165	—	—	21,165
Shenzhen Guoxin Electronics Development Company, Limited	29,700	29,700	—	—	29,700
Congo-Chine Telecom S.A.R.L	55,800	24,298	31,502	—	55,800
Yangzhou Zhongxing Mobile Telecom Company, Limited	3,900	3,900	—	—	3,900
深圳市中興移動通信有限公司	45,799	45,799	—	—	45,799
南京中興軟創科技有限責任公司	24,282	23,982	—	—	23,982
ZTE (UK) Ltd.	4,533	5,286	—	—	5,286
ZTE Do Brasil LTDA	10,058	10,058	—	—	10,058
Shenzhen Zhongxing Software Company Limited	38,609	26,751	9,749	—	36,500
ZTE Integration Telecom Ltd.	41,250	41,250	—	—	41,250
ZTE Wistron Telecom AB	2,445	3,137	—	—	3,137
ZTE-Communication Technologies, Ltd.	4,188	4,188	—	—	4,188
ZTE Corporation Mexico S. DE R. L DE C.V.	41	41	—	—	41
Shenzhen Changfei Investment Company Limited	15,300	15,300	—	—	15,300
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	2,971	—	—	2,971
Guangdong New Pivot Technology & Service Company Limited	13,500	9,000	4,500	—	13,500
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	—	—	45,000
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited	5,100	5,100	—	—	5,100
ZTE Holdings (Thailand) Co., Ltd.	10	10	—	—	10
ZTE (Thailand) Co., Ltd.	2,044	204	1,840	—	2,044
Shenzhen Special Equipment Company Limited	540	540	—	—	540
ZTE Telecom India Private Ltd.	1,654	1,654	—	—	1,654
ZTE Romania S.R.L.	827	827	—	—	827
ZTE (Malaysia) Corporation SDN. BHD.	496	496	—	—	496
ZiMax (Cayman) Holding Ltd.	45,485	45,485	—	—	45,485
西安中興精誠通訊有限公司	11,396	11,396	—	—	11,396
Closed Joint Stock Company TK Mobile	4,258	4,258	—	—	4,258
PT. ZTE Indonesia	1,654	1,654	—	—	1,654
深圳中興力維技術有限公司	6,000	6,000	—	—	6,000
		522,079	47,591	(9,430)	560,240

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

### 11. Long-term equity investments (continued)

#### The Company – 2006 (Restated) (continued)

##### (4) Jointly-controlled entities

	Share of registered capital	Initial investment	Accumulated additional/(reduced) investment cost	Equity adjustment					Ending balance of the year
				Changes in profit and loss during the year	Cash bonus during the year	Accumulated change in profit and loss	Provision for impairment		
							Additions for the year	Accumulated additions	
1	2	3	4	5=1+2+3+4					
Beijing Zhongxingxin Communication Equipment Company, Limited	50%	2,500	–	(797)	–	1,316	–	–	3,816

##### (5) Associates

	Share of registered capital	Initial investment	Accumulated additional/(reduced) investment cost	Equity adjustment					Ending balance of the year
				Changes in profit and loss during the year	Cash bonus during the year	Accumulated change in profit and loss	Provision for impairment		
							Additions for the year	Accumulated additions	
1	2	3	4	5=1+2+3+4					
ZTE IC Design Co., Ltd	40%	30,000	–	2,608	–	(14,174)	–	–	15,826
Beijing Zhongxing Yuanjing Technology Co., Ltd	30%	3,000	–	30	–	(2,684)	–	–	316
KAZNURTEL Limited Liability Company	49%	1,012	–	–	–	1,465	–	–	2,477
中興軟件技術(南昌)有限公司	30%	4,500	–	939	–	(1,206)	–	–	3,294
		38,512	–	3,577	–	(16,599)	–	–	21,913

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

### 11. Long-term investments (continued)

#### *The Company – 2006 (Restated)* (continued)

##### (6) *Impairment for Long-term equity investment*

	Opening balance of the year	Additions	Reductions	Ending balance of the year
ZTE (USA) Inc.	5,381	—	—	5,381
Telrise (Cayman) Telecom Ltd.	12,847	123	—	12,970
Shenzhen Guoxin Electronics Development Company, Limited	23,767	—	—	23,767
Yangzhou Zhongxing Mobile Telecom Company, Limited	3,900	—	—	3,900
深圳市中興移動通信有限公司	17,657	—	—	17,657
ZTE (UK) Ltd.	4,533	—	—	4,533
ZTE Do Brasil LTDA	10,059	—	—	10,059
ZTE Integration Telecom Ltd.	—	4,591	—	4,591
ZTE Wistron Telecom AB	2,030	—	—	2,030
ZTE Corporation Mexico S. DE R. L DE C.V.	41	—	—	41
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	—	—	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited	9,656	—	—	9,656
ZTE Holdings (Thailand) Co., Ltd.	10	—	—	10
ZTE (Thailand) Co., Ltd.	205	—	—	205
ZTE Telecom India Private Ltd.	1,654	—	—	1,654
ZTE Romania S.R.L.	827	—	—	827
ZTE (Malaysia) Corporation SDN.BHD.	496	—	—	496
ZiMax (Cayman) Holding Ltd.	12,317	—	—	12,317
	108,351	4,714	—	113,065

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

### 12. Fixed assets

	2007					Total
	Buildings	Electronic equipment	Machinery equipment	Motor vehicles	Other equipment	
Cost:						
Opening balance	1,007,029	1,774,751	1,195,875	238,044	18,875	4,234,574
Addition	56,930	357,289	274,757	45,090	21,418	755,484
Transferred from Construction in progress	228,136	—	75,164	—	—	303,300
Retirements and disposals	—	(137,141)	(32,007)	(20,163)	(2,666)	(191,977)
Exchange realignments	(414)	(49,425)	(1,485)	(856)	118	(52,062)
Closing balance	1,291,681	1,945,474	1,512,304	262,115	37,745	5,049,319
Accumulated depreciation:						
Opening balance	191,732	820,411	453,671	80,211	9,689	1,555,714
Provision	58,796	208,575	206,926	25,802	6,726	506,825
Retirements and disposals	—	(97,441)	(16,975)	(12,560)	(947)	(127,923)
Exchange realignments	(69)	(8,661)	(1,287)	(282)	(63)	(10,362)
Closing balance	250,459	922,884	642,335	93,171	15,405	1,924,254
Provision for impairment:						
Opening and closing balance	7,708	77,819	1,475	—	—	87,002
Fixed assets, net:						
31 December, 2007	1,033,514	944,771	868,494	168,944	22,340	3,038,063
31 December, 2006	807,589	876,521	740,729	157,833	9,186	2,591,858



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### 12. Fixed assets (continued)

As at 31 December 2007, houses and buildings with a book value of RMB96,478,000 (31 December 2006: RMB100,190,000) was pledged as security for the preservation of properties subject to legal proceedings. Details are disclosed in Note IX: Contingent Events. A subsidiary of the Group pledged real estate properties with a book value of RMB3,990,000 as security for short-term loans. Two other subsidiaries pledged real estate properties with a book value of RMB9,906,000 and machinery equipment with a book value of RMB121,044,000, respectively, as security for long-term loans.

Fixed assets in use for which depreciation had been fully charged had a original cost of RMB173,634,000 (31 December 2006: RMB229,981,000) and a book value of RMB8,682,000 (31 December 2006: RMB11,499,000). There were no fixed assets which were obsolete, pending disposal or idle as at 31 December 2007 (31 December 2006: nil).

As at 31 December 2007, the Group was in the process of applying for property ownership certificate for buildings in Shenzhen and Nanjing in China with a net book value of approximately RMB42,246,000 (31 December 2006: RMB238,060,000).

	2006 (Restated)					Total
	Buildings	Electronic equipment	Machinery equipment	Motor vehicles	Other equipment	
<b>Cost:</b>						
Opening balance	969,254	1,419,878	1,009,942	210,369	14,497	3,623,940
Addition	11,066	424,238	208,510	40,399	5,600	689,813
Transferred from Construction in progress	27,178	33,374	—	—	—	60,552
Retirements and disposals	—	(92,846)	(21,704)	(12,375)	(1,401)	(128,326)
Exchange realignments	(469)	(9,893)	(873)	(349)	179	(11,405)
Closing balance	1,007,029	1,774,751	1,195,875	238,044	18,875	4,234,574
<b>Accumulated depreciation:</b>						
Opening balance	138,497	607,436	331,685	64,229	6,942	1,148,789
Provision	53,270	290,035	132,769	23,589	3,638	503,301
Retirements and disposals	—	(74,478)	(10,704)	(7,502)	(858)	(93,542)
Exchange realignments	(35)	(2,582)	(79)	(105)	(33)	(2,834)
Closing balance	191,732	820,411	453,671	80,211	9,689	1,555,714
<b>Provision for impairment:</b>						
Opening balance	7,708	85,797	1,475	—	—	94,980
Accrued	—	—	—	—	—	—
Reversed	—	(7,978)	—	—	—	(7,978)
Closing balance	7,708	77,819	1,475	—	—	87,002
<b>Fixed assets, net:</b>						
31 December 2007	807,589	876,521	740,729	157,833	9,186	2,591,858
31 December 2006	823,049	726,645	676,782	146,140	7,555	2,380,171

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### 13. Construction in progress

Name of construction project	2007						Completion status of project
	Budget	Opening balance of the year	Additions	Transferred to fixed assets	Closing balance of the year	Source of funds	
Liuxiandong ZTE Industrial Park	650,000	191,818	376,999	97,000	471,817	Internal resources	87.51%
Nanjing II phase	—	90,457	55,039	122,000	23,496	Internal resources	
Shanghai II phase	—	92,667	136,785	—	229,452	Internal resources	
Nanjing III phase	—	18,090	68,744	—	86,834	Internal resources	
Equipment install project	—	60,747	122,546	75,163	108,130	Internal resources	
Others	—	15,857	4,641	9,137	11,361	Internal resources	
<b>Total</b>		<b>469,636</b>	<b>764,754</b>	<b>303,300</b>	<b>931,090</b>		

Name of construction project	2006						Completion status of project
	Budget	Opening balance of the year	Additions	Transferred to fixed assets	Closing balance of the year	Source of funds	
Liuxiandong ZTE Industrial Park	650,000	46,665	145,153	—	191,818	Internal resources	29.51%
Nanjing II phase	—	6,008	84,449	—	90,457	Internal resources	
Shanghai II phase	—	—	92,667	—	92,667	Internal resources	
Nanjing III phase	—	1,162	16,928	—	18,090	Internal resources	
Equipment install project	—	34,129	26,618	—	60,747	Internal resources	
Science and Technology Park R&D Center	—	12,195	15,003	27,198	—	Internal resources	
New plant in Wuxi	—	14,589	2,998	17,587	—	Internal resources	
R&D plant project	—	9,440	—	9,440	—	Internal resources	
Others	—	2,553	19,631	6,327	15,857	Internal resources	
<b>Total</b>		<b>126,741</b>	<b>403,447</b>	<b>60,552</b>	<b>469,636</b>		

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### 14. Intangible assets

	2007				Total
	Software	Technology know-how	Land use rights	Operating concession	
Cost:					
Opening balance	272,443	1,354	14,866	103,006	391,669
Additions	96,698	—	32,943	—	129,641
Retirements and disposals	(5,195)	—	—	(4,387)	(9,582)
Closing balance	363,946	1,354	47,809	98,619	511,728
Accumulated amortization:					
Opening balance	166,916	316	840	43,782	211,854
Amortization during the year	46,477	308	586	3,439	50,810
Retirements and disposals	(1,673)	—	—	(1,067)	(2,740)
Closing balance	211,720	624	1,426	46,154	259,924
Provision for impairment:					
Opening and closing balance	12,884	—	6,322	7,750	26,956
Net:					
Closing balance	139,342	730	40,061	44,715	224,848
Opening balance	92,643	1,038	7,704	51,474	152,859

As at 31 December 2007, a subsidiary of the Group pledged software with a book value of RMB54,183,000 as security for long-term borrowings. Another subsidiary pledged operating concession with a book value of RMB44,654,000 as security for long-term borrowings.

	2006 (Restated)				Total
	Software	Technology know-how	Land use rights	Operating concession	
Cost:					
Opening balance	230,209	1,354	13,333	104,614	349,510
Additions	42,234	—	1,533	—	43,767
Retirements and disposals	—	—	—	(1,608)	(1,608)
Closing balance	272,443	1,354	14,866	103,006	391,669
Accumulated amortization:					
Opening balance	121,216	—	474	40,600	162,290
Amortization during the year	45,700	316	366	3,182	49,564
Retirements and disposals	—	—	—	—	—
Closing balance	166,916	316	840	43,782	211,854
Provision for impairment:					
Opening and closing balance	12,884	—	6,322	7,750	26,956
Net:					
Closing balance	92,643	1,038	7,704	51,474	152,859
Opening balance	96,109	1,354	6,537	56,264	160,264

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

### 15. Research and development cost

	2007	2006 (Restated)
System products	209,475	129,751
Handsets	49,516	—
	<b>258,991</b>	129,751

Total research and development cost

	2007	2006 (Restated)
Recognized as expenses	3,210,433	2,832,686
Recognized as assets	181,481	—

### 16. Deferred tax assets/liability

	2007							
	Unrealized profit	Provision for maintenance	Tax losses	Overseas tax	Inventories provision	R&D capitalisation	Others	Total
Opening balance	7,298	34,562	51,141	87,516	53,166	(27,968)	5,208	210,923
Deferred tax credited to the income statement during the year	54,785	(23,930)	20,014	49,179	12,284	(28,492)	987	84,827
Closing balance	62,083	10,632	71,155	136,695	65,450	(56,460)	6,195	295,750

	2006 (Restated)							
	Unrealized profit	Provision for maintenance	Tax losses	Overseas tax	Inventories provision	R&D capitalisation	Others	Total
Opening balance	4,474	37,350	—	—	39,069	(26,614)	5,308	59,587
Deferred tax credited to the income statement during the year	2,824	(2,788)	51,141	87,516	14,097	(1,354)	(100)	151,336
Closing balance	7,298	34,562	51,141	87,516	53,166	(27,968)	5,208	210,923

At 31 December 2007, deductible losses of the Group not recognized as deferred income tax assets amounted to RMB389,043,000 (31 December 2006: RMB210,256,000), which would expire in 2011. The Group is of the view that taxable profit which may be used to set off the said deductible losses is unlikely to arise in the future, therefore deferred income tax assets have not been recognized in respect of the said item.

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### 17. Long-term deferred assets

The Group entered into an international construction contract with Algerie 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 Algerie Telecom for the five years after the commissioning of the project, and the ownership of these telecommunications equipment shall be transferred to Algerie Telecom after 5 years at nil consideration. As at 31 December 2007, the project was completed. Such assets would be amortized on the straight line basis over a period of 5 years.

#### Algerie broadband network construction project

	Original cost	Opening balance of the year	Increase during the year	Amortization during the year	Accumulated amortization	Closing balance of the year
2007	48,498	40,415	—	(6,921)	(15,004)	33,494
2006	48,498	13,996	34,503	(8,084)	(8,084)	40,415

### 18. Provision for impairment of assets

	2007			
	Opening balance of the year	Provision for the year	Written back	Closing balance of the year
Provision of bad debts	556,857	714,042	—	1,270,899
Provision for impairment of inventories	448,662	91,765	(16,667)	523,760
Provision for impairment of fixed assets	87,002	—	—	87,002
Provision for impairment of intangible assets	26,956	—	—	26,956
	<b>1,119,477</b>	<b>805,807</b>	<b>(16,667)</b>	<b>1,908,617</b>

	2006 (Restated)				
	Opening balance of the year	Provision for the year	Decrease for the year	Closing balance of the year	
			Written back	Written off	
Provision of bad debts	466,244	90,613	—	—	556,857
Provision for impairment of inventories	515,958	47,808	(115,104)	—	448,662
Provision for impairment of fixed assets	94,980	—	—	(7,978)	87,002
Provision for impairment of intangible assets	26,956	—	—	—	26,956
	<b>1,104,138</b>	<b>138,421</b>	<b>(115,104)</b>	<b>(7,978)</b>	<b>1,119,477</b>

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### 19. Short-term loans

		2007		2006 (Restated)	
		Original currency	RMB equivalent	Original currency	RMB equivalent
Credit loans	RMB	808,990	808,990	78,900	78,900
	USD	276,992	2,023,231	95,000	741,826
	INR	160,000	29,634	—	—
Pledged loans*	RMB	3,000	3,000	125,000	125,000
Guaranteed Loans	RMB	29,000	29,000	—	—
			<b>2,893,855</b>		945,726

\* The carrying amount of real estate for above pledged loans was RMB3.99 million.

The rate of the short-term loans is 4.425-9.126%.

### 20. Financial guarantee contracts

In 2006, the Group provided financial guarantees to customers with a maximum exposure of RMB50 million. Such guarantee will expire in September 2018. This financial guarantee contract was accounted for as a financial liability and recognized at the initially measured fair value of RMB3,689,000.

### 21. Bills payable

#### The Group

	2007	2006 (Restated)
Bank acceptance bills	<b>3,946,429</b>	2,242,566

No outstanding amount due to shareholders holding 5% or more in the shares at the end of the year (31 December 2006: Nil).

#### The Company

	2007	2006 (Restated)
Bank acceptance bills	<b>3,130,628</b>	1,816,066
Commercial acceptance bills	<b>687,382</b>	371,529
	<b>3,818,010</b>	2,187,595

No outstanding amount due to shareholders holding 5% or more in the shares at the end of the year (31 December 2006: Nil).

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### 22. Trade payables

Trade payables are interest-free and repayable normally within 6 months.

#### *The Group*

Of the balance of trade payables as at the end of the year, RMB88,023,000 was due to shareholders holding 5% or more in the shares (31 December 2006: RMB147,860,000). Please refer to Notes VIII "The relationships and transactions among related parties".

#### *The Company*

No outstanding amounts due to shareholders holding 5% or more in the shares at the end of the year (31 December 2006: Nil).

### 23. Advances from customers

No outstanding amounts due to shareholders holding 5% or more in the shares at the end of the year (31 December 2006: Nil).

### 24. Salary and welfare payables

	2007			Ending balance of the year
	Beginning balance of the year	Accruals	Payments	
Salary, bonus, and allowance	668,307	4,360,358	(4,131,693)	896,972
Staff welfare	133,867	263,295	(353,199)	43,963
Social insurance	3,578	217,942	(212,475)	9,045
Included: Medical Insurance	369	51,190	(51,110)	449
Pension Insurance	3,057	147,596	(142,242)	8,411
Unemployment Insurance	92	8,246	(8,226)	112
Working injured Insurance	23	7,615	(7,610)	28
Maternity Insurance	37	3,295	(3,287)	45
Housing funds	1,397	2,303	(1,910)	1,790
Labour union fund and employee education fund	251,655	117,704	(79,290)	290,069
	1,058,804	4,961,602	(4,778,567)	1,241,839

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### 24. Salary and welfare payables (continued)

	Beginning balance of the year	2006 (Restated)		Ending balance of the year
		Accruals	Payments	
Salary, bonus, and allowance	622,804	2,877,822	(2,832,319)	668,307
Staff welfare	273,053	274,108	(413,294)	133,867
Social insurance	3,753	208,596	(208,771)	3,578
Included:				
Medical Insurance	353	49,805	(49,789)	369
Pension Insurance	3,255	144,225	(144,423)	3,057
Unemployment Insurance	88	5,469	(5,465)	92
Working injured Insurance	22	6,643	(6,642)	23
Maternity Insurance	35	2,454	(2,452)	37
Housing funds	1,393	1,547	(1,543)	1,397
Labour union fund and employee education fund	247,165	62,843	(58,353)	251,655
	1,148,168	3,424,916	(3,514,280)	1,058,804

### 25. Tax payable

	2007	2006 (Restated)
Value-added tax ("VAT")	(1,804,841)	(1,026,553)
Business tax	6,504	4,752
City maintenance and construction tax	2,328	6,000
Income tax	399,502	297,913
PRC tax	43,971	67,950
Overseas tax	355,531	229,963
Education surcharge fee	6,584	8,891
Individual income tax	19,580	14,936
Other tax	28,013	3,294
	(1,342,330)	(690,767)

### 26. Dividend payable

	2007	2006 (Restated)
Restricted shares	—	—
Unrestricted shares	41,180	83,941
	41,180	83,941

The balance represented dividends that had not been paid to minority shareholders by subsidiaries of the Company.



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### 27. Provision

	2007			
	Opening balance of the year	Increase during the year	Decrease during the year	Closing balance of the year
Provision of penalty	4,035	36,603	(4,035)	36,603
Provision for returned handsets	31,645	10,414	(11,688)	30,371
Provision for warranties	256,152	61,793	(258,877)	59,068
	<b>291,832</b>	<b>108,810</b>	<b>(274,600)</b>	<b>126,042</b>

	2006 (Restated)			
	Opening balance of the year	Increase during the year	Decrease during the year	Closing balance of the year
Provision of penalty	4,035	—	—	4,035
Provision for returned handsets	16,000	33,855	(18,210)	31,645
Provision for warranties	274,733	114,724	(133,305)	256,152
	<b>294,768</b>	<b>148,579</b>	<b>(151,515)</b>	<b>291,832</b>

### 28. Other payables

	2007	2006 (Restated)
Share incentive scheme	485,931	—
Accruals	298,823	310,837
Payables to external parties	338,384	193,270
Deposits	51,372	15,114
Others	139,547	188,967
	<b>1,314,057</b>	<b>708,188</b>

Of the balance of other payables as at the end of the year, RMB313,000 was due to shareholders holding 5% or more in the shares (31 December 2006: RMB361,000). Please refer to Notes VIII. "The relationships and transactions among related parties".

### 29. Long-term liabilities due within one year

	Note	2007	2006 (Restated)
Long-term loans	30	1,509,569	—

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### 30. Long-term loans

Terms	Financial Institutes		2007		2006 (Restated)		Maturity
			Original currency	RMB equivalent	Original currency	RMB equivalent	
Credit Loans	The Export-import Bank of China	RMB	1,400,000	1,400,000	900,000	900,000	2008
	Bank of China	USD	50,000	365,230	40,000	312,348	2009-2010
	China Citic Bank	USD	20,000	146,092	—	—	2010
	Others			111,929		117,157	2008-2010
Pledged and secured Loans	China Development Bank	USD	63,000	460,190			2009 Note 1
Pledged Loans	China Development Bank	USD	55,200	403,214	34,500	269,737	2012 Note 2
Guarantee Loans	The Export-import Bank of China	RMB	708,143	708,143	80,000	80,000	2009-2012 Note 3
Less: Long-term Loans due within one year				(1,509,569)		—	
				2,085,229		1,679,242	

The rate of Long-term loans is 2.00–11.50%.

Note 1: The loan is pledged by the Company's 51% equity interests in Congo-Chine Telecom S.A.R.L ("Congo-Chine"). The Ministry of State-owned Enterprises of Congo (Kinshasa) provides a counter-guarantee for Congo-Chine by pledging its 25% equity interests in Congo-Chine. The loan is also secured by fixed assets purchased with the loans under the loan agreement.

Note 2: The loan is pledged or secured or pledged by assets to be formed in future by existing loans and loans under loan agreements of Closed Joint Stock Company Tajik-China Mobile.

Note 3: Out of the amount, RMB400 million was guaranteed by Guangdong Development Bank, Shenzhen Branch, and the balance was guaranteed by the Ministry of State-owned Enterprises of Congo (Kinshasa).

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### 31. Specific payables

	Opening and closing balance of the year
Technology appropriations	80,000

In 2001, the China Aerospace Science and Industry Corporation ("CASIC") Group granted a special R&D fund of RMB80 million to the Company on behalf of the government. It was specifically provided in the agreement governing the R&D fund that the Company was not required to repay the fund after the project was completed, while the CASIC Group would be entitled to rights as the representative of the State capital contributor for such amount. The R&D fund had been fully utilized by 2002 and due inspection for acceptance had been performed by the CASIC Group. However, since the Company is a listed company and it is not permissible under current State regulations to issue additional shares to the CASIC Group through private placing, the CASIC Group has not been able to exercise its rights as the representative of the State capital contributor. The CASIC Group has not made any demands for withdrawal of the fund.

### 32. Share capital

The Company had 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. Restricted shares					
1. State owned corporate shares	310,983	32.41%	—	310,983	32.41%
2. Other domestic shares					
Domestic natural person shares	1,281	0.13%	(310)	971	0.10%
3. Foreign shares					
Foreign corporate shares	—	—	—	—	—
Total number of restricted shares	312,264	32.54%	(310)	311,954	32.51%
II. Unrestricted shares					
1. RMB ordinary shares	487,107	50.77%	310	487,417	50.80%
2. Overseas listed foreign shares	160,151	16.69%	—	160,151	16.69%
Total number of unrestricted shares	647,258	67.46%	310	647,568	67.49%
III. Total shares	959,522	100%	—	959,522	100%

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

### 33. Capital reserves

	2007				Total
	Share premium	Provision for equity investments	Share incentive scheme	Other capital reserves	
Effect of changes of other equity holders' interest in invested entities under equity method	—	38,396	—	—	38,396
Issue of new shares	5,462,657	—	—	—	5,462,657
Equity settled transaction	—	—	300,148	—	300,148
Others	—	—	—	6,131	6,131
	<b>5,462,657</b>	<b>38,396</b>	<b>300,148</b>	<b>6,131</b>	<b>5,807,332</b>

	2006 (Restated)				Total
	Share premium	Provision for equity investments	Share incentive scheme	Other capital reserves	
Effect of changes of other equity holders' interest in invested entities under equity method	—	38,396	—	—	38,396
Issue of new shares	5,462,657	—	—	—	5,462,657
Equity settled transaction	—	—	2,480	—	2,480
Others	—	—	—	6,131	6,131
	<b>5,462,657</b>	<b>38,396</b>	<b>2,480</b>	<b>6,131</b>	<b>5,509,664</b>

### 34. Surplus reserves

	Opening balance	Increase during the period	Decrease during the period	Closing balance
2007	1,331,059	33,699	—	1,364,758
2006 (Restated)	1,264,060	66,999	—	1,331,059

In accordance with the Company Law of the PRC and the articles of associations, the Company is required to allocate 10% of their profit after tax to the statutory surplus reserve( the "SSR"). The accumulated statutory surplus reserve has reached 50% of the registered capitals of the Company, the Company will not allocate the SSR .

The Company could allocate other surplus reserves after the statutory surplus reserves allocation. Other surplus reserves can be applied to make up losses of the previous years, or capitalized as the company's share capitals.

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

### 35. Retained profits

	2007	2006 (Restated)
Retained profits at the beginning of the year	2,911,544	2,411,070
Impact of the first-time adoption of ASBE	85,036	125,417
Retained profits after retrospective adjustments at the beginning of the year	2,996,580	2,536,487
Net profit	1,252,158	766,972
Less: Statutory surplus reserves	(33,699)	(66,999)
Dividend payable	(143,928)	(239,880)
Proposed dividend at the end of the year	(239,880)	(143,928)
Retained profits at the end of the year	3,831,231	2,852,652

A cash dividend of RMB2.5 (tax inclusive) for every 10 shares or RMB239,800,000 in aggregate will be paid in respect of the year, based on the total share capital as at 31 December 2007.

### 36. Minority interests

The minority interests of the major subsidiaries is as follow:

	2007	2006 (Restated)
ZTE Kangxun Telecom Co., Ltd.	217,905	182,616
Shenzhen Changfei Investment Company, Limited	194,184	127,625
南京中興軟創科技有限責任公司	76,883	51,290
Congo-China Telecom Investment Network (CCTNET)	45,609	66,279
Wuxi Zhongxing Optoelectronics Technologies Company, Limited	32,211	24,877

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

### 37. Operating revenue and costs

#### The group

	2007	2006 (Restated)
Revenue	34,766,214	23,031,685
Other income	10,967	182,895
	<b>34,777,181</b>	23,214,580

	2007	2006 (Restated)
Costs of sales	22,998,782	15,159,382
Other operating expenses	5,759	113,744
	<b>23,004,541</b>	15,273,126

Sales to the top five customers of the Group generated revenue of RMB 14,108,829,000 and RMB 9,171,419,000 in 2007 and 2006 respectively, accounting for 40.57% and 39.51% of the operating revenue of the Group respectively.

#### The company

	2007	2006 (Restated)
Revenue	31,870,913	21,215,583
Other income	928,342	688,147
	<b>32,799,255</b>	21,903,730

	2007	2006 (Restated)
Costs of sales	27,589,418	18,834,180
Other operating expenses	9,493	4,111
	<b>27,598,911</b>	18,838,291

Sales to the top five customers of the Company generated revenue of RMB 14,141,198,000 and RMB 10,742,716,000 in 2007 and 2006 respectively, accounting for 43.11% and 49.05% of the operating revenue of the Company respectively.

Operating revenue referred to the revenue from telecommunications system contracts, sale of goods and services. Segment information of the Group and the Company is set out in Note VII "Segment information".

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

### 38. Taxes and surcharges

	2007	2006 (Restated)
Business tax	168,775	33,277
City maintenance and construction tax	12,652	20,785
Education surcharge	19,739	30,930
Others	79,100	26,368
<b>Total</b>	<b>280,266</b>	<b>111,360</b>

For business tax standards, please refer to Note IV, "taxation".

### 39. Finance Expenses

	2007	2006 (Restated)
Interest expenses	328,301	153,694
Less: Interest income	(47,536)	(49,050)
Loss on exchange	45,796	29,422
Cash discounts and interest subsidy	71,912	41,018
Bank charges	95,898	64,533
<b>Total</b>	<b>494,371</b>	<b>239,617</b>

### 40. Impairment Losses

	2007	2006 (restated)
Bad debt provisions	714,042	90,613
Inventories provisions/(reversal)	75,098	(67,296)
<b>Total</b>	<b>789,140</b>	<b>23,317</b>

### 41. Gains from changes in fair values

	2007	2006 (restated)
Derivative financial assets/liability	115,566	16,595

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

### 42. Investment income

#### *The Group*

	2007	2006 (restated)
Investment Income from long-term investment under equity method	24,267	7,523
Investment Income from derivatives financial assets	29,507	24,326
Investment Income from disposal of equity investment	5,663	—
	<b>59,437</b>	31,849

#### *The Company*

	2007	2006 (restated)
Investment Income on long-term investment under cost method	2,015,414	2,344,206
Investment Income on long-term investment under equity method	5,268	2,780
Investment Income from disposal of equity investment	29,507	—
	<b>2,050,189</b>	2,346,986

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



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

### 43. Non-operating Income

	2007	2006 (Restated)
Refund of VAT on software products* <sup>1</sup>	714,796	547,027
Financial subsidies on essential new products	70,963	22,544
Preferential financial subsidies on new products	55,611	12,872
Others* <sup>2</sup>	64,763	76,272
<b>Total</b>	<b>906,133</b>	<b>658,715</b>

\*<sup>1</sup> 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.

\*<sup>2</sup> In 2007, the Group forfeited gains from illicit trading of shares by Senior Vice President Zhou Susu and Vice President Yu Yong of the Company, with an amount of RMB176,000.

### Non-operating Expenses

	2007	2006 (Restated)
Penalties	103,440	7,226
Others	75,713	18,926
<b>Total</b>	<b>179,153</b>	<b>26,152</b>

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

### 44. Income Tax

	2007	2006 (Restated)
Current Income Tax	361,110	278,414
Deferred Income Tax	(84,827)	(151,336)
	<b>276,283</b>	127,078

A reconciliation between income tax and total profit was as follows:

	2007	2006 (Restated)
Consolidated total profit	1,727,734	1,030,690
Tax at statutory tax rate (Note 1)	570,152	340,128
Lower tax rate for specific provinces or local authority	(310,992)	(185,539)
Profits and losses attributable to jointly-controlled entities and associates	(1,869)	(1,129)
Income not subject to tax	(277,864)	(205,958)
Expenses not deductible for tax	229,342	97,993
Tax losses utilised from previous years	(1,680)	(11,146)
Tax losses of subsidiaries	69,194	92,729
Tax charge at the Group's effective rate	<b>276,283</b>	127,078

Note 1: The Group's income tax has been provided at the rate on the estimated taxable profits arising in the PRC during the year. Taxes on taxable profits elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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%. Pursuant to the State Council Circular on the Implementation of the Transitional Concession Policies for Corporate Income Tax (Guo Fa [2007] No. 39), enterprises previously entitled to concession the new policies of tax rate reductions shall have a grace period of 5 years to comply with the new statutory tax rates, commencing 1 January 2008 after the implementation of the new tax law. Enterprises entitled to a 15% corporate income tax rate will be subject to a 18% tax rate in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012. The Group is subject to the transitional tax rate for the current year in the calculation of deferred taxation. The Group has made adjustments to the balance of deferred income tax assets and liabilities at 31 December 2007 based on the transitional statutory tax rates in respect of assets and liabilities expected to be realized and settled in future after the implementation of the new corporate income tax law on 1 January 2008. The effect of this change on income tax expenses for the current period of approximately RMB26,463,000 has been reflected in the 2007 financial statements.

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

### 45. Earnings per share

Basic earnings per share is computed by dividing the net profit attributable to equity holders of the parent for the year by the weighted average number of ordinary shares in issue.

In the calculation of diluted earnings per share, net profit attributable to equity holders of the parent for the year is adjusted for the following: (1) interests on potentially dilutive ordinary shares recognized as expenses for the year; (2) income or expenses arising from the conversion of potentially dilutive ordinary shares; and (3) income tax effect on the above adjustments.

In the calculation of diluted earnings per share, the denominator shall be the sum of: (1) weighted average number of ordinary shares of the Company in issue adopted in the calculation of basic earnings per share; and (2) weighted average number of ordinary shares created assuming conversion of potentially dilutive ordinary shares into ordinary shares.

In calculating the weighted average number of ordinary shares created upon conversion of potentially dilutive ordinary shares into ordinary share, potentially dilutive ordinary shares issued in previous years are assumed to have been converted at the beginning of the current year, whereas potentially dilutive ordinary shares issued in the current year are assumed to have been converted on the date of issue.

Calculations of basic earnings per share and diluted earnings per shares were as follows:

	2007	2006 (Restated)
<b>Earnings</b>		
Net profit attributable to equity holders of the parent for the year	<b>1,252,158</b>	766,972
Interests on potentially dilutive ordinary shares recognized as expenses for the year	—	—
Income/(expenses) arising on conversion of potentially dilutive ordinary shares	—	—
Adjusted net profit attributable to equity holders of the parent for the year	<b>1,252,158</b>	766,972
<b>Shares</b>		
Weighted average number of ordinary shares of the parent	<b>959,522</b>	959,522
Diluting effect — weighted average number of ordinary shares:		
Restricted Shares under share incentive scheme	<b>9,596</b>	—
Adjusted weighted average number of ordinary shares of the parent in issue	<b>969,118</b>	959,522

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

### 46. Cash paid or received relating to other operating activities

The majority of the above cashflow is as follows:

	2007	2006 (Restated)
Cash received relating to other operating activities:		
Government subsidies	127,117	91,495

	2007	2006 (Restated)
Cash paid relating to other operating activities		
Selling and distribution costs	2,314,410	1,140,554
Administrative expenses and Research and development cost	2,232,298	964,772

### 47. Cash flows from operating activities

	2007	2006 (Restated)
Reconciliation of net profit to cash flows from operating activities		
Net profit	1,451,451	903,612
Add: Provision for impairment of assets	789,140	23,317
Depreciation of fixed assets	506,870	503,301
Amortisation of intangible assets and deferred development costs	103,051	49,564
Amortisation of long-term deferred assets	6,921	8,084
Loss on disposal of fixed assets, intangible assets and other long-term assets	23,927	14,885
Gain from changes in fair value	(115,566)	(16,595)
Finance expenses	382,704	173,840
Investment income	(59,437)	(31,849)
Increase in deferred tax assets	(84,827)	(151,336)
Increase in inventories	(3,280,829)	(381,185)
Increase in operating receivables	(5,911,494)	(3,612,469)
Increase in operating payables	5,983,235	959,365
Share incentive scheme costs	297,668	2,480
Increase/(decrease) in pledged bank deposits	(4,424)	6,902
Net cash flows from operating activities	88,390	(1,548,084)

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

### 48. Cash and cash equivalents

	2007	2006 (Restated)
Cash		
Including: Cash on hand	9,560	12,046
Bank deposit without restriction	6,289,324	4,103,916
Other currency without restriction	10,865	26,101
Cash and cash equivalents at end of year	6,309,749	4,142,063
Pledged bank deposits	173,421	168,997

## VII. SEGMENT INFORMATION

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

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

- (a) The wireless communications segment engages in the provision of systems integration and the sale of equipment for mobile phone network systems, primarily in respect of CDMA, GSM and wireless local access (PHS) systems.
- (b) The wireline switch and access segment engages in the manufacture and sale of wireline, circuit-switches and narrow-band access systems for fixed line phone systems.
- (c) The optical and data communications segment engages in the provision of DSL systems, SDH, WDM systems and softswitch systems, broadband routing switches, wireless access data products and other data communications products.
- (d) The handsets segment engages in the manufacture and sale of CDMA and GSM mobile phone handsets and wireless local access (PHS) handsets.
- (e) The telecommunications software systems and services and other products segment represented the provision of telecommunications software systems such as operation support systems and the provision of fee-based services.

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

Inter-segment transfers are conducted at prevailing market prices with reference to prices adopted in sales to third parties.

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## VII. SEGMENT INFORMATION (continued)

### (a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2007.

	2007					
	Wireless communications	Wireless switch and access	Optical and data communications	Handset	Telecommunications software systems, services and other products	Total
Operating revenue	14,851,493	1,350,148	6,365,850	7,645,126	4,564,564	34,777,181
Operating costs	1,876,925	170,631	804,513	966,188	576,868	4,395,125
Operating profit	636,340	58,058	162,658	100,269	43,429	1,000,754
Total assets						
Segment assets	11,000,505	1,082,006	4,912,012	3,965,018	4,078,282	25,037,823
Unallocated assets						14,135,273
Subtotal						39,173,096
Total liabilities						
Segment liabilities	1,610,709	155,801	553,440	183,649	584,934	3,088,533
Unallocated liabilities						23,196,155
Subtotal						26,284,688
Other segment information:						
Capital expenditure	683,648	62,074	438,431	263,014	358,056	1,805,223
Depreciation and amortisation	233,232	21,177	149,574	89,729	123,130	616,842
Provision for impairment of assets	177,917	46,380	156,825	243,608	164,410	789,140

	2006 (Restated)					
	Wireless communications	Wireless switch and access	Optical and data communications	Handset	Telecommunications software systems, services and other products	Total
Operating revenue	9,186,920	2,279,424	3,874,634	4,519,492	3,354,110	23,214,580
Operating costs	1,242,664	308,325	524,100	611,327	453,692	3,140,108
Operating profit	226,362	51,218	34,155	43,227	43,165	398,127
Total assets						
Segment assets	7,928,525	1,979,726	3,352,383	2,368,637	1,124,605	16,753,876
Unallocated assets						9,006,817
Subtotal						25,760,693
Total liabilities						
Segment liabilities	491,760	56,382	560,098	254,266	269,644	1,632,150
Unallocated liabilities						12,802,706
Subtotal						14,434,856
Other segment information:						
Capital expenditure	422,669	118,655	271,375	266,542	103,729	1,182,970
Depreciation and amortisation	200,423	56,265	128,682	126,391	49,188	560,949
Provision for impairment of assets	14,600	(797)	1,195	(1,593)	9,912	23,317

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## VII. SEGMENT INFORMATION (continued)

### (b) Geographical segments

	2007				
	The PRC	Asia (excluding the PRC)	Africa	Others	Total
Operating revenue	14,686,596	9,679,370	5,484,831	4,926,384	34,777,181
Total assets	27,021,070	9,653,953	1,197,665	1,300,408	39,173,096

	2006 (Restated)				
	The PRC	Asia (excluding the PRC)	Africa	Others	Total
Operating revenue	12,902,766	5,787,144	2,596,820	1,927,850	23,214,580
Total assets	23,684,208	1,231,856	653,400	191,229	25,760,693

## VIII THE RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES

### 1. Related party relationships

A party is considered to be related to the Group if the party controls individually or jointly or exercises significant influence over the Group or vice versa, or together with the Group is under common control or significant influence by another party.

The related parties of the Group are set out as follows:

- 1) The ultimate holding company;
- 2) The Company's subsidiaries;
- 3) Other enterprises under common control with the Group by the same parent company;
- 4) Investors exercising common control over the Group;

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## VIII THE RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (continued)

### 1. Related party relationships (continued)

- 5) Investors exercising significant influence over the Group;
- 6) The Group's joint ventures;
- 7) The Group's associates;
- 8) Major investors of the Group and their close family members;
- 9) Key management personnel of the Group or the parent company and their close family members;
- 10) Other enterprises individually or jointly-controlled by or subject to significant influence of major investors or key management personnel of the Group or their close family members.

### 2. Holding company

Name of holding company	Place of registration	Nature of business	Shareholding percentage of the company	Vote right Percentage of the company	Organization code	Registered Capital
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	Shenzhen, Guangdong	Manufacturing	32.41%	32.41%	19222451-8	RMB100 million

The company's ultimate controlling party is the parent company.



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## VIII THE RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (continued)

### 3. Details for related parties with non-controlling relationship were as follow:

	Relationship with connected parties	Organization code
Shenzhen Zhongxing WXT Equipment Company, Ltd.	Shareholder of the Company's controlling shareholder	27941498X
Xi'an Microelectronics Technology Research Institute	Shareholder of the Company's controlling shareholder	H0420141-X
Shenzhen Zhongxing Information Technology Co., Ltd.	Partially holding company of the shareholder of the Company's controlling shareholder	715233457
Shenzhen Gaodonghua Communication Technology Co., Ltd.	Partially holding company of the shareholder of the Company's controlling shareholder	74323392-1
Shenzhen Zhongxing Development Co., Ltd.	Partially holding company of the shareholder of the Company's controlling shareholder	75048467-3
Shenzhen Shenglongfeng Industrial Co., Ltd.	Partially holding company of the shareholder of the Company's controlling shareholder	72619249-4
北京協力超越科技有限公司	Partially holding company of the shareholder of the Company's controlling shareholder	76678817-X
Lishan Microelectronics Research Institute	The Company's shareholder	43523013-9
吉林省郵電器材總公司	The Company's shareholder	12391552-6
湖南南天集團有限公司	The Company's shareholder	18380498-2
Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	Under the same controlling shareholder as the Company	75049913-8
深圳市中興新舟成套設備有限公司	Under the same controlling shareholder as the Company	78390928-7
Beijing Zhongxing Yuanjing Technology Co., Ltd.	Associate	Liquidated
深圳市聚飛光電有限公司	Associate	77987106-0
Wuxi KaiEr Technology Company, Limited	Associate	76828981-7
Shenzhen Weigao Semiconductor Company, Limited	Associate	76346680-2
ZTE IC Design Co., Ltd	Associate	71528448-1
Shenzhen Decang Technology Company Limited	Associate	77162861-3
Shenzhen Smart Electronics Company, Limited.	Associate	77412852-6
Shenzhen Zhongxing Xinyu FPC Company, Limited	Associate	75252829-7
深圳市富德康電子有限公司	Associate	78924272-7
中興軟件技術(南昌)有限公司	Associate	77585307-6
Beijing Zhongxingxin Communication Equipment Company, Limited	Subsidiary jointly-controlled by the company	Liquidated
Chung Hing (Hong Kong) Development Limited	Company controlled by key management personnel of the Company	N/A
中興智能交通系統(北京)有限公司	Company controlled by key management personnel of the Company	72260457-8
中太數據通訊(深圳)有限公司	Company controlled by key management personnel of the Company	Sold
深圳市聚賢投資有限公司	Company controlled by key management personnel of the Company	72717233-X
摩比天綫技術(深圳)有限公司	Company controlled by key management personnel of the Company	71522427-8

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## VIII THE RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (continued)

### 4. Major transactions between the group and related companies:

#### (1) Sales of goods to the related parties:

	2007	2006 (Restated)
Shenzhen Zhongxing Information Technology Co., Ltd.	7,360	1,704
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	—	3,682
Beijing Zhongxingxin Communication Equipment Company Limited	—	38
Beijing Zhongxing Yuanjing Technology Co., Ltd	—	862
ZTE IC Design Co., Ltd	3,145	16,889
Shenzhen Zhongxing WXT Equipment Company, Ltd.	845	5,632
Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	93	915
中興軟件技術（南昌）有限公司	7,039	31,910
西安微電子技術研究所	—	130
深圳市中興新舟成套設備有限公司	—	302
Shenzhen Decang Technology Company Limited	—	351
Shenzhen Zhongxing Xinyu FPC Company, Limited	245	—
Shenzhen Smart Electronics Company, Limited.	1,054	—
Shenzhen Zhongxing Development Co., Ltd.	—	364
深圳市聚飛光電有限公司	1,024	—
中興智能交通系統（北京）有限公司	30,169	—
	<b>50,974</b>	<b>62,779</b>

The sales to related parties has accounted for 0.13% of the group's total sales. (2006: 0.27%).

# NOTES TO FINANCIAL STATEMENTS

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

## VIII THE RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (continued)

### 4. Major transactions between the group and related companies: (continued)

#### (2) Purchase of raw materials from connected parties:

	2007	2006 (Restated)
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	<b>492,233</b>	359,439
Shenzhen Zhongxing WXT Equipment Company, Ltd.	<b>124,359</b>	133,646
Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	<b>162,816</b>	76,558
Shenzhen Zhongxing Information Technology Co., Ltd	<b>25,093</b>	6,821
Xi' an Microelectronics Technology Research Institute	<b>5,705</b>	5,524
Shenzhen Zhongxing Xinyu FPC Company, Limited	<b>14,952</b>	16,217
Chung Hing (Hong Kong) Development Limited	—	217
ZTE IC Design Co., Ltd	<b>71,695</b>	66,144
Wuxi KaiEr Technology Company, Limited	<b>36,870</b>	19,342
Shenzhen Decang Technology Company Ltd.	<b>20,924</b>	12,974
深圳市富德康電子有限公司	—	—
中興軟件技術（南昌）有限公司	<b>1,503</b>	—
深圳市聚飛光電有限公司	<b>13,698</b>	6,625
摩比天綫技術（深圳）有限公司	<b>240,901</b>	—
Shenzhen Smart Electronics Company, Ltd.	<b>924</b>	774
深圳市中興新舟成套設備有限公司	<b>36,114</b>	14,604
Shenzhen Shenglongfeng Industrial Co., Ltd.	<b>3,137</b>	—
Shenzhen Weigao Semiconductor Company, Limited	<b>15,093</b>	—
	<b>1,266,017</b>	718,885

The purchase from related parties has accounted for 5.88% of the group's total purchase. (2006: 5.24%).

# NOTES TO FINANCIAL STATEMENTS

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

## VIII THE RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (continued)

### 4. Major transactions between the group and related companies: (continued)

#### (3) Leasing property to related parties:

	2007	2006 (Restated)
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	19,018	—
Shenzhen Zhongxing Development Co., Ltd.	21,418	—
	40,436	—

#### (4) Other major related transaction:

	2007		2006 (Restated)	
	amount	percentage	amount	percentage
Salary of key management personnel	10,181	0.21%	5,066	0.14%

Notes:

- (i) Sales of goods to related parties: Goods were sold to connected parties by the group at market price during the year.
- (ii) Purchase of materials from related parties: Raw materials, parts and ancillary materials were purchase by the group from related parties at market price during the year.
- (iii) Leasing property to related parties: Property were leased to related parties by the group at 40~115 yuan per square metres during the year.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)  
(All amounts in RMB'000 unless otherwise stated)  
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## VIII THE RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (continued)

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

Item	Names of related parties	2007	2006 (Restated)
Trade payables	Shenzhen Smart Electronics Company, Limited.	191	73
	深圳市中興新舟成套設備有限公司	4,118	9,833
	Shenzhen Zhongxingxin Telecommunication Equipment Company, Limited	88,023	147,860
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	14,918	34,365
	Shenzhen Zhongxing Information Technology Co., Ltd.	12,612	2,133
	Shenzhen Zhonxing Xinyu FPC Company, Limited	3,642	2,241
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	1,734	21,879
	Shenzhen Gaodonghua Communication Technology Co., Ltd.	176	792
	Beijing Zhongxingxin Communication Equipment Company Limited	—	301
	Chung Hing (Hong Kong) Development Limited	—	66
	ZTE IC Design Co., Ltd	5,254	9,348
	Shenzhen Decang Technology Company Limited	7,055	1,487
	WuXi KaiEr Science and Technology Company, Limited	6,342	6,768
	摩比天綫技術(深圳)有限公司	41,367	—
	深圳市富德康電子有限公司	7,530	—
	Shenzhen Weigao Semiconductor Company, Limited	1,686	—
	Shenzhen Shenglongfeng Industrial Co., Ltd.	1,014	—
	Xi'an Microelectronics Technology Research Institute	345	—
	中興軟件技術(南昌)有限公司	422	—
			<b>196,429</b>

# NOTES TO FINANCIAL STATEMENTS

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

## VIII THE RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (continued)

### 5. Amounts due from/to related parties (continued)

Item	Names of related parties	2007	2006 (restated)
Other payables	Shenzhen Zhongxingxin Telecommunication Equipment Company, Limited	313	361
	Lishan Microelectronics Research Institute	65	65
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	12	12
	吉林省郵電器材總公司	65	65
	Shenzhen Zhongxing Information Technology Co., Ltd.	48	48
	Shenzhen Smart Electronic Company, Ltd.	300	300
	湖南南天集團有限公司	130	130
	深圳市聚賢投資有限公司	4,706	—
		<b>5,639</b>	<b>981</b>
	Bills payable	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	12,481
Shenzhen Zhongxing WXT Equipment Company, Ltd.		1,184	—
Shenzhen Smart Electronic Company, Ltd.		234	—
ZTE IC Design Co., Ltd		—	1,660
Shenzhen Decang Technology Company Limited		8,623	2,772
WuXi KaiEr Science and Technology Company, Limited		784	—
Shenzhen Zhongxing Xinyu FPC Company, Limited		12	—
		<b>23,318</b>	<b>4,490</b>
Prepayments	ZTE IC Design Co., Ltd	182	182
	中太數據通信(深圳)有限公司	75	75
	Shenzhen Zhongxing Information Technology Co., Ltd.	3,608	3,608
	<b>3,865</b>	<b>3,865</b>	
Other receivables	Shenzhen Zhongxing Development Co., Ltd.	7	—
	WuXi KaiEr Science and Technology Company, Limited	6	—
	<b>13</b>	<b>—</b>	

# NOTES TO FINANCIAL STATEMENTS

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

## VIII THE RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (continued)

### 5. Amounts due from/to related parties (continued)

Item	Names of related parties	2007	2006 (restated)	
Trade receivables	Shenzhen Zhongxingxin Telecommunication Equipment Company, Limited	943	2,074	
	Shenzhen Zhongxing Information Technology Co., Ltd.	194	146	
	Beijing Zhongxingxin Communication Equipment Company Limited	—	1,560	
	Xi'an Microelectronics Technology Research Institute	9	9	
	Shenzhen Zhongxing Development Co., Ltd.	—	32	
	ZTE IC Design Co., Ltd 中興軟件技術(南昌)有限公司	— 200	2,459 7,314	
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited 深圳市中興新舟成套設備有限公司	54 129	362 129	
	Shenzhen Decang Technology Company Limited 中興智能交通系統(北京)有限公司	— 78	410 —	
	深圳市聚飛光電有限公司	23	—	
		1,630	14,495	
	Receipt in advance	Shenzhen Weigao Semiconductor Company, Limited	4,644	4,644
		Shenzhen Zhongxing Information Technology Co., Ltd. 北京協力超越科技有限公司	12 10	— —
		中興智能交通系統(北京)有限公司	59	—
Xi'an Microelectronics Technology Research Institute		2	—	
		4,727	4,644	
Dividend receivable	Shenzhen Zhongxing Xinyu FPC Company, Limited	2,271	1,136	
Dividend payable	Shenzhen Zhongxing WXT Equipment Company, Ltd. 深圳市聚賢投資有限公司	12,087 27,464	— —	
		39,551	—	

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)

## IX CONTINGENT EVENTS

1. On 3 November 2005, a Jiangsu Provincial 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 interest and compensating losses of approximately RMB71 million in aggregate. As at the date of approval of these financial statements, no decision had been made in the court proceedings.

Meanwhile, RMB31 million of the Group's cash had been temporary frozen and the real estate title certificate for certain of the Group's buildings with net book value of approximately RMB117.2 million were held by the court as security for such litigation. In the opinion of the directors, based on legal advice from the Company's lawyer engaged for this action, the subsidiary of the Group and the Company have valid defences against such claims and any resulting liabilities would not have any material adverse impact on the Group's financial position. Therefore, no provision in respect of such claims was made in the financial statements.

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 US\$36,450,000 (equivalent to approximately RMB266.3 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 for 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 had been made in the financial statements.

3. In August 2006, a foreign customer commenced an arbitration for a claim against the Company, for Rs.762,982,000 (equivalent to approximately RMB90,871,000), in respect of the Company's failure to honour a contract. while in return, the Company has launched a counter claim against the foreign customer for failure in honouring the contract. An arbitration decision has been awarded against the Company in February 2008 and Rs.328,040,000 (equivalent to approximately RMB39,070,000) have to be paid by the Company. The Company has set aside a provision for such amount at the balance sheet date and prepared to launch an objection for the decision awarded. As at the approval date of these financial statements, no compensation has been paid regarding the arbitration. In the opinion of the directors, based on legal advice of the Company's lawyer engaged for this action, ultimate outcome of the claim is not yet determinable given the early stage of the proceedings. Accordingly, no further provision in respect of such claims was made in the financial statements.
4. At the balance sheet date, the group had outstanding guarantees given to banks in respect of performance bonds amounting to RMB5,711,133,000.



# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)  
(All amounts in RMB'000 unless otherwise stated)  
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## X OPERATING LEASE ARRANGEMENTS

Significant operating lease:

According to the lease contract signed with lessor, the group had total future minimum lease payments under non-cancelable operating leases falling due as follows:

	2007	2006 (restated)
Within one year (including first year)	183,471	118,347
In the first to second years (including second year)	122,686	34,733
In the second to third years (including third year)	42,266	12,991
After third years	44,641	35,300
	<b>393,064</b>	201,371

## XI COMMITMENTS

	2007	2006 (restated)
Capital commitments		
Contracted but not provided for	582,263	795,991
Investment commitments		
Contracted but not implemented completely	255,234	80,331

## XII FINANCIAL INSTRUMENTS AND RISKS ANALYSIS

### Financial risk management objective and policies

The main financial instruments of the group, except for Derivatives, also include bank loans, cash and bank etc. The main purpose of these financial instruments is to financing for the group's operation. The group has many other financial assets and liabilities directly from operation, such as trade receivables and trade payables etc.

The Group entered into forward currency contracts and aimed at managing the foreign exchange risk in the group operation.

# NOTES TO FINANCIAL STATEMENTS

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

## XII FINANCIAL INSTRUMENTS AND RISKS ANALYSIS (continued)

### Financial risk management objective and policies (continued)

The main risk which comes from the Group's financial instruments is the credit risk, liquidity risk and market risk. The Board has considered and approved a policy to manage these risks, and they are summarized as follows:

#### *Credit risk*

Credit risk is the risk arising from default of the counterparty.

The credit risk of the group is mainly due to trade receivables. The Group only trades with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For offshore transactions, the group doesn't offer business credit unless getting the special permission of the credit control department.

The Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets, and certain derivatives. The Group's credit risk of financial assets and financial guarantee contract arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Although the top five arrears has taken the total trade receivables for 25.48%, due to the risk is low, so the group doesn't have significant credit risk.

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral.

The further quantitative data, which is disclosure about the credit risk of trade receivables, other receivables and long-term trade receivables by the group, will be discussed in relevant financial report notes.

#### *Liquidity risk*

Liquidity risk is that enterprises may face difficulty to raise sufficient funds to repay the debt that related with financial instruments risks. Liquidity risks may arise from financial assets which can not be sold as soon as possible at fair value, the other party is unable to pay its contractual obligations, from early matured debt obligations, or the unexpected insufficient cash flow .

The group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables, bank loans) and projected cash flows from operations.

The Group's subject is to maintain a balance between continuity of funding and flexibility trough the use of bank loans and other interest-bearing loans. The Group's policy is that all borrowings mature in less than one year. On 31 December 2007, the 67.86% of the Group debt (2006: 36.03%) is due less than one year.

# NOTES TO FINANCIAL STATEMENTS

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

## XII FINANCIAL INSTRUMENTS AND RISKS ANALYSIS (continued)

### Financial risk management objective and policies (continued)

#### Liquidity risk (continued)

The following table summarized the expires deadline analysis of financial assets according to the remaining maturity.

2007	Book Value	Due	Within one year	1 to 2 year	2 to 3 year	After 3 year
Cash and bank	6,483,170	6,309,749	173,421	—	—	—
Derivative financial assets	123,644	—	123,644	—	—	—
Bills receivable	1,656,258	1,656,258	—	—	—	—
Trade receivables and long-term trade receivables	7,679,956	5,158,593	1,940,356	437,777	48,160	95,070
Factored trade receivables and Factored long-term trade receivables	3,296,377	3,296,377	—	—	—	—
Other receivables	689,889	689,889	—	—	—	—
Available-for-sale financial assets	43,464	43,464	—	—	—	—
	<b>19,972,758</b>	<b>17,154,330</b>	<b>2,237,421</b>	<b>437,777</b>	<b>48,160</b>	<b>95,070</b>

2006 (restated)	Book Value	Due	Within one year	1 to 2 year	2 to 3 year	After 3 year
Cash and bank	4,311,060	4,142,063	168,997	—	—	—
Derivative financial assets	33,288	33,288	—	—	—	—
Bills receivable	1,658,406	1,658,406	—	—	—	—
Trade receivables and long-term trade receivables	5,702,331	4,146,350	1,183,278	277,499	95,204	—
Factored trade receivables and Factored long-term trade receivables	1,552,054	1,552,054	—	—	—	—
Other receivables	441,039	441,039	—	—	—	—
Available-for-sale financial assets	43,488	43,488	—	—	—	—
	<b>13,741,666</b>	<b>12,016,688</b>	<b>1,352,275</b>	<b>277,499</b>	<b>95,204</b>	<b>—</b>

# NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC GAAP)  
(All amounts in RMB'000 unless otherwise stated)  
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## XII FINANCIAL INSTRUMENTS AND RISKS ANALYSIS (continued)

### Financial risk management objective and policies (continued)

#### Liquidity risk (continued)

The following table summarized the expires deadline analysis of financial assets to the remaining maturity.

2007	Book value	Due	Within one year	1 to 2 year	2 to 3 year	After 3 year
Bank loans	6,488,653	—	4,403,424	1,095,398	221,498	768,333
Bank advances on trade receivables and long-term trade receivables	3,296,377	3,296,377	—	—	—	—
Derivative financial liabilities	7,876	7,876	—	—	—	—
Bills payable	3,946,429	3,946,429	—	—	—	—
Trade payables	7,856,240	7,856,240	—	—	—	—
Salary & welfare payables	1,241,839	1,241,839	—	—	—	—
Taxes payable (exclude income tax)	(1,741,832)	(1,741,832)	—	—	—	—
Dividend payable	41,180	41,180	—	—	—	—
Other payables (exclude prepaid expense)	1,015,234	1,015,234	—	—	—	—
Financial guarantee contract	3,689	—	—	—	—	3,689
Provision for retirement benefits	34,408	—	—	—	—	34,408
	<b>22,190,093</b>	<b>15,663,343</b>	<b>4,403,424</b>	<b>1,095,398</b>	<b>221,498</b>	<b>806,430</b>

2006	Book value	Due	Within one year	1 to 2 year	2 to 3 year	After 3 year
Bank loans	2,624,968	—	945,726	1,033,157	312,348	333,737
Bank advances on trade receivables and long-term trade receivables	1,552,054	1,552,054	—	—	—	—
Bills payable	2,242,566	2,242,566	—	—	—	—
Trade payables	4,749,099	4,749,099	—	—	—	—
Salary & welfare payable	1,058,804	1,058,804	—	—	—	—
Taxes payable (exclude income tax)	(988,680)	(988,680)	—	—	—	—
Dividend payable	83,941	83,941	—	—	—	—
Other payables (exclude prepaid expense)	397,351	397,351	—	—	—	—
Financial guarantee contract	3,689	—	—	—	—	3,689
Provision for retirement benefits	32,058	—	—	—	—	32,058
	<b>11,755,850</b>	<b>9,095,135</b>	<b>945,726</b>	<b>1,033,157</b>	<b>312,348</b>	<b>369,484</b>

# NOTES TO FINANCIAL STATEMENTS

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

## XII FINANCIAL INSTRUMENTS AND RISKS ANALYSIS (continued)

### Financial risk management objective and policies (continued)

#### Interest rate risk

Interest rate risk is the risk that the fair value/future cash flow of a financial instrument will fluctuate because of changes in market interest rate.

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

On 31 December 2007, the bank loans of the Group and the Company including fixed rate debts and floating debts based on LIBOR. The Group and the Company have no significant concentration of interest rate risk.

The Group's interest risk policy requires it to manage interest risk by maintaining an appropriate mix of fixed and variable rate instruments. The Group's policy requires it to maintain the fixed interest rate between 4.0% and 11.5%. On 31 December 2007, approximately 61% (2006: 53%) of the Group's interest-bearing borrowings bore interest at fixed rates.

All of the interest-bearing borrowings with floating interest rate are in US\$. If the bank loan interest rate and the variable rate generally increase/decrease 0.25%, the Group's profit before tax and owner's equity will accordingly decrease/increase by RMB2.9 million and RMB1.7 million for the year ended 31 December 2007 and 2006 respectively.

#### Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates.

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

The following table demonstrates the sensitivity of a reasonably possible change in interest rates main lead to the changes in the Group's profit before tax and owners' equity, with all other variables held constant.

	US dollars exchange rate increase/decrease	impact to the Group's profit before tax and owners' equity
2007	+5%	40,344
	-5%	(40,344)
2006	+5%	111,018
	-5%	(111,018)

# NOTES TO FINANCIAL STATEMENTS

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

## XIII POST BALANCE SHEET EVENT

- (i) On 30 January 2008, the Company issued 40,000,000 bonds with warrants with a nominal value of RMB100 each, amounting to RMB4 billion in total. The bonds with warrants are listed on the Shenzhen Stock Exchange. The bonds with warrants are guaranteed by China Development Bank, and have a 5-year life from the date of issuance. The subscribers of each bond have been entitled to receive 1.63 warrants at nil consideration, which in aggregate, 65,200,000 warrants have been issued. The warrants have a life of 24 months from the date of listing and every two warrants can be converted into 1 A share at a original conversion price of RMB78.13. The holders of the warrants are entitled to exercise the warrants 10 trading days prior to the 24th month of the listing of the warrants ("Exercise Period"). Exercise in full of the warrants would have resulted in the issue of 20,000,000 A shares. The bonds with warrants are interest bearing at a rate of 0.8% per annum payable in arrears on 30 January each year.
- (ii) The Board proposes to increase the registered capital of the Company by capitalising the capital reserve fund of the Company, pursuant to which Bonus Shares will be allotted and issued to the Shareholders on the basis of 4 Bonus Shares for every 10 Shares held by the Shareholders on the Record Date. The registered capital of the Company will increase from RMB959,521,650 to RMB1,343,330,310 upon completion of the Bonus Issue. Based on a total of 959,521,650 Shares in issue in the Record Date, 383,808,660 Bonus Shares will be issued by the Company, of which 64,060,416 Shares are Bonus H Shares and 319,748,244 are Bonus A Shares.

The Bonus Issue and the increase in the Company's registered capital are subject to the Shareholders' approval at the coming Annual General Meeting.

## XIV COMPARATIVE DATA

It is the first year to adopt new accounting standards; comparative data is restated in line with its requirements.

## XV APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 March 2008.

# Appendix I – Supplementary Information to Financial Statements

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

## I. RECONCILIATION OF DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER PRC GAAP AND UNDER HKFRSS

There were no significant differences between financial statements prepared under PRC GAAP and under HKFRSSs.

## II. RETURN ON NET ASSETS AND EARNINGS PER SHARE

	Return on net assets		Earnings per share (RMB)	
	Fully diluted	Weighted average	Basic	Diluted
Net profit attributable to equity holders of the parent	10.32%	10.94%	1.30	1.29
Net profit after extraordinary items attributable to equity holders of the parent	10.26%	10.88%	1.30	1.29

Including: Net profit after extraordinary items attributable to equity holders of the parent

	2007	2006 (Restated)
Net profit attributable to equity holders of the parent	<b>1,252,158</b>	766,972
Add/(less):		
Non-operating income	<b>(120,373)</b>	(89,144)
Reversal of welfare expenses	<b>(66,251)</b>	—
Non-operating expenses	<b>179,153</b>	26,151
Effect of extraordinary items on income tax	<b>1,121</b>	9,449
Net profit attributable to equity holders of the parent	<b>1,245,808</b>	713,428
Less: Effect of extraordinary items attributable to minority interests	—	—
Net profit after extraordinary items attributable to equity holders of the parent	<b>1,245,808</b>	713,428

Extraordinary items are recognized in accordance with No. 1 of “Q&A on Information Disclosure Standards for Companies with Publicly Issued Securities” (CSRC Kuai Ji Zi [2007] No. 9).

# Appendix I – Supplementary Information to Financial Statements

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

## III. ANALYSIS OF CHANGE IN THE FIGURES OF VARIOUS ITEMS IN THE FINANCIAL STATEMENT

Balance sheet items	Analysis of reasons
Cash on hand and at bank	Mainly as a result of improved operating cash flow and the increase in loans
Derivative financial assets	Mainly as a result of the increase in fair value of forward currency transactions
Trade receivables	Mainly as a result of growth in sales
Prepayments	Mainly as a result of the increase of purchases of raw materials and fixed assets using prepayment
Other receivables	Mainly as a result of the Group's expansion
Inventories	Mainly as a result of growth in purchases driven by sales growth and the increase in contracts under implementation
Amounts due from customers for contract works	Mainly because progress of construction contract work completion had been ahead of payment schedules stipulated in the contract
Long-term trade receivables	Mainly as a result of credit financing granted to designated customers following sales growth
Factored long-term trade receivables	Mainly as a result of increased factored financing to ensure collection of receivables following the expansion in business
Long-term equity investments	Mainly as a result of investments in 中興能源有限責任公司
Construction in progress	Mainly as a result of the increase in construction expenditure for ZTE Industrial Park and R&D centres in Nanjing and Shanghai
Intangible assets	Mainly as a result of the increase in the purchase of software
Development expenditure	Mainly as a result of capitalisation of R&D expenses
Deferred tax assets	Mainly as a result of the increase in unrealised profit and overseas tax not currently deductible
Short-term loans	Mainly as a result of increased loans to meet working capital requirements and hedge foreign currency exchange risks
Bills payable	Mainly as a result of increased use of bills to settle payments
Trade payables	Mainly as a result of growth in purchases driven by sales growth
Amounts due to customers for contract works	Mainly as a result of the increase in advanced payments received in line with the increase in construction contracts
Advances from customers	Mainly as a result of the increase in advances from customers in line with sales growth
Taxes payable	Mainly as a result of the increase in deductible Input VAT tax
Dividend payable	Mainly as a result of the decrease in unpaid dividend
Other payables and accruals	Mainly as a result of staff payments under the Share Incentive Scheme
Deferred income	Mainly as a result of the increase in government subsidies deferred in recognition
Provision	Mainly as a result of changes in expected liabilities
Bank advances on factored trade receivables	Mainly as a result of increased factored financing to ensure collection of receivables following the expansion in business
Retained profit	Mainly as a result of the increase of profit for the period



# Appendix I – Supplementary Information to Financial Statements

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

## III. ANALYSIS OF CHANGE IN THE FIGURES OF VARIOUS ITEMS IN THE FINANCIAL STATEMENT (continued)

Income statement items	Analysis of reasons
Foreign currency translation differences	Mainly as a result of exchange rate fluctuations
Minority interests	Mainly as a result of the increase in subsidiaries' profit of during the year
Operating revenue	Mainly as a result of increased sales and expedited project work progress
Operating costs	Mainly as a result of increased sales and slight increase in cost ratio
Taxes and surcharges	Mainly as a result of the increase in corresponding business tax in line with increased service revenue
Selling and distribution costs	Mainly as a result of increased sales
Administrative expenses	Mainly as a result of expanded operations
Finance expenses	Mainly as a result of increased interest expenses in line with increased loans
Asset impairment losses	Mainly as a result of the increase in bad debt provision
Gains from change in fair values	Mainly as a result of the increase in fair value of forward currency transactions
Investment income	Mainly as a result of the increase in investment gains from joint ventures and associates and gains from the settlement of forward currency transactions
Non-operating income	Mainly as a result of the increase in tax rebate income and technology grants
Non-operating expenses	Mainly as a result of the increase in losses and penalty expenses for disposal of fixed assets and obsolete materials
Income tax	Mainly as a result of expanded operations of companies with higher tax liabilities
Net profit attributable to equity holders of the parent	Mainly as a result of expanded sales
Minority interests	Mainly as a result of increased profit of subsidiaries for the period

## IV. ANALYSIS OF ADJUSTMENTS AND REVISIONS OF SHAREHOLDERS' EQUITY AS AT THE DATE OF INITIAL IMPLEMENTATION

As the Company listed on the Shenzhen Stock Exchange and the Stock Exchange of Hong Kong, the Company made retrospective adjustments to capitalised R&D expenses and their effect on deferred income tax in line with changes in accounting policies based on information obtained, in accordance with ASBE Interpretation No. 1 issued by the Ministry of Finance of the People's Republic of China. Reconciliation of differences in shareholders' equity under old and new accounting standards disclosed in the supplementary information in the 2006 annual report has been revised. Such revision has resulted in the adjustment of the opening balance of retained profits for 2007 by an increase of RMB106,989,000.

## Appendix II – Reconciliation Statement of Net Profit Differences between New and Old PRC Accounting Standards

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

In accordance with “No. 7 of Q&A on Information Disclosure Standards for Companies with Publicly Issued Securities – Preparation and Disclosure of Comparative Financial and Accounting Information during the Transition Period for Old and New Accounting Standards” (CSRC Kuai Ji Zi [2007] No. 10), the Group has prepared a reconciliation of differences in net profit under old and new accounting standards to show retrospective adjustments to the 2006 income statement. The Group has assumed the implementation of Enterprise Accounting Standards No. 1 to No. 37 with effect from the start of the comparative period (i.e. 1 January 2006”), and has produced a hypothetical analysis of the significant difference between net profit amounts under new accounting standards and old accounting standards in respect of items not covered in No. 5 to No. 19 of “Enterprise Accounting Standards No. 38 – Initial Implementation of Enterprise Accounting Standards” and do not require retrospective adjustments.

### 2006 Reconciliation Statement Of Net Profit Differences Between New And Old PRC Accounting Standards

Items	Amount
Net profit attributable to equity holders of the parent (old accounting standards)	807,353
Retrospective adjustments	
Financial assets	16,595
Capitalisation of R&D expenses	(45,697)
Deferred income tax	(8,114)
Government subsidies	2,123
Provision for retirement benefits	(1,599)
Financial guarantee contracts	(3,689)
Aggregate effect of retrospective adjustments	(40,381)
Net profit attributable to equity holders of the parent (new accounting standards)	766,972

## Appendix III – Reconciliation Statement of Income Statement Items and Shareholder Equity Differences between Old and New PRC Accounting Standards

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

### 2006 Reconciliation Statement of Income Statement Items

For the 12 months ended 31 December 2006 Items	Adjustment to Income Statement	
	Before adjustment	After adjustment
Operating costs	15,171,797	15,273,126
Selling and distribution costs	3,140,108	3,140,108
Administrative expenses	4,010,206	1,244,683
Gains from changes in fair value	0.00	16,595
Investment income	31,849	31,849
Income tax	125,624	127,078
Net profit attributable to equity holders of the parent	807,353	766,972

### Reconciliation Statement Of Shareholders' Equity Differences Between Old And New PRC Accounting Standards With Comparative Figures

Items	Figures disclosed in 2007 annual report	Figures disclosed in 2006 annual report	Differences	
			Differences	Reasons
Shareholders equity at 31 December 2006	10,678,911	10,678,911	0.00	Nil
Difference in long-term equity investment	0.00	0.00	0.00	Nil
Including: Difference in long-term equity investment resulting from merger of enterprises under common control	0.00	0.00	0.00	Nil
Credit difference of other long-term equity investment under equity accounting	0.00	0.00	0.00	Nil
Properties held for investment to be measured at fair value	0.00	0.00	0.00	Nil
Depreciation for previous years to be charged retrospectively in respect of anticipated asset disposal expenses	0.00	0.00	0.00	Nil
Dismissal compensation qualifying for recognition as anticipated liability	0.00	0.00	0.00	Nil
Share-based payment	0.00	0.00	0.00	Nil
Enterprise merger	0.00	0.00	0.00	Nil
Including: carrying value of goodwill arising from merger of enterprises under common control	0.00	0.00	0.00	Nil
Provision for goodwill impairment charged under new accounting standards	0.00	0.00	0.00	Nil
Financial assets and available-for-sale assets dealt with at fair value through current profit or loss	16,595	16,595	0.00	Nil
Financial liabilities dealt with at fair value through current profit or loss	-3,689	-3,689	0.00	Nil
Increase in equity as a result of subdivision of financial tools	0.00	0.00	0.00	Nil
Derivative financial tools	0.00	0.00	0.00	Nil
Income tax	0.00	0.00	0.00	Nil
Minority interests	561,892	561,892	0.00	Nil
Special retrospective adjustments for B share and H share listed companies	72,128	-34,861	106,989	ASBE Interpretation No. 1
<b>Others</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>Nil</b>
Shareholders equity at 1 January 2007	11,325,837	11,218,848	106,989	Same as above

# INDEPENDENT AUDITORS' REPORT



## To the shareholders of ZTE Corporation

(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements of ZTE Corporation set out on pages 216 to 287, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Certified Public Accountants  
18th Floor, Two International Finance Centre  
8 Finance Street, Central  
Hong Kong  
19 March 2008

# CONSOLIDATED INCOME STATEMENT

(Prepared under Hong Kong financial reporting standards)  
Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
REVENUE	5	<b>34,777,181</b>	23,214,580
Cost of sales		<b>(23,415,044)</b>	(15,365,903)
Gross profit		<b>11,362,137</b>	7,848,677
Other income and gains	5	<b>1,028,001</b>	724,678
Research and development costs		<b>(3,210,433)</b>	(2,832,685)
Selling and distribution costs		<b>(4,531,512)</b>	(3,274,699)
Administrative expenses		<b>(1,718,242)</b>	(1,097,615)
Other expenses		<b>(898,183)</b>	(191,495)
Finance costs	7	<b>(328,301)</b>	(153,694)
Share of profits and losses of:			
Jointly-controlled entities		<b>784</b>	(652)
Associates		<b>23,483</b>	8,175
PROFIT BEFORE TAX	6	<b>1,727,734</b>	1,030,690
Tax	10	<b>(276,283)</b>	(127,078)
PROFIT FOR THE YEAR		<b>1,451,451</b>	903,612
Attributable to:			
Equity holders of the parent	11	<b>1,252,158</b>	766,972
Minority interests		<b>199,293</b>	136,640
		<b>1,451,451</b>	903,612
DIVIDEND			
Proposed final	12	<b>239,880</b>	143,928
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		<b>RMB1.30</b>	RMB0.80
Diluted		<b>RMB1.29</b>	RMB0.80

# CONSOLIDATED BALANCE SHEET

(Prepared under Hong Kong financial reporting standards)  
Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	15	3,954,809	3,053,019
Deposit for land premium		28,000	—
Prepaid land premiums/land lease payments	16	58,357	55,146
Intangible assets	17	443,777	274,905
Investments in jointly-controlled entities	19	2,255	5,936
Investments in associates	20	134,764	51,257
Available-for-sale investments	21	43,464	43,488
Long term trade receivables	24	581,007	372,703
Factored long term trade receivables	25	3,142,709	1,399,206
Deferred tax assets	37	295,750	210,923
Total non-current assets		8,684,892	5,466,583
<b>CURRENT ASSETS</b>			
Prepaid land premiums/land lease payments	16	1,543	1,449
Inventories	22	5,363,430	2,481,155
Amount due from customers for contract works	23	8,606,291	5,833,480
Trade and bills receivables	24	8,755,207	6,988,034
Factored trade receivables	25	153,668	152,848
Prepayments, deposits and other receivables	26	2,792,626	1,497,323
Loan receivable	27	13,466	22,026
Equity investment at fair value through profit or loss	28	—	33,288
Derivative financial instruments	29	123,644	—
Pledged bank deposits	30	173,421	168,997
Cash and cash equivalents	30	6,309,749	4,142,063
Total current assets		32,293,045	21,320,663
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	31	11,802,669	6,991,665
Amount due to customers for contract works	23	1,597,314	996,275
Other payables and accruals	32	4,337,861	2,732,572
Interest-bearing bank borrowings	33	4,403,424	945,726
Bank advances on factored trade receivables	25	153,668	152,848
Tax payable		399,502	297,913
Derivative financial instruments	29	7,876	—
Dividend payables		41,180	83,941
Total current liabilities		22,743,494	12,200,940
NET CURRENT ASSETS		9,549,551	9,119,723
TOTAL ASSETS LESS CURRENT LIABILITIES		18,234,443	14,586,306

Continued/...

# CONSOLIDATED BALANCE SHEET (Continued)

(Prepared under Hong Kong financial reporting standards)  
Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>18,234,443</b>	14,586,306
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings	33	<b>2,085,229</b>	1,679,242
Bank advances on factored long-term trade receivables	25	<b>3,142,709</b>	1,399,206
Financial guarantee contract	43	<b>3,689</b>	3,689
Provision for retirement benefits	34	<b>34,408</b>	32,058
Other long-term payables	35	<b>80,000</b>	146,274
Total non-current liabilities		<b>5,346,035</b>	3,260,469
Net assets		<b>12,888,408</b>	11,325,837
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital	38	<b>959,522</b>	959,522
Reserves	40(a)	<b>10,937,759</b>	9,660,495
Proposed final dividend	12	<b>239,880</b>	143,928
		<b>12,137,161</b>	10,763,945
<b>Minority interests</b>		<b>751,247</b>	561,892
Total equity		<b>12,888,408</b>	11,325,837

**Hou Weigui**  
Director

**Yin Yimin**  
Director

Continued/...

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared under Hong Kong financial reporting standards)  
Year ended 31 December 2007

Notes	Attributable to equity holders of the parent										
	Issued capital	Capital reserve	Share incentive scheme reserve	Statutory reserves	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total	Minority interests	Total equity	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2006	959,522	5,506,424	–	1,264,060	(15,981)	2,296,607	239,880	10,250,512	470,729	10,721,241	
Exchange realignments and other income recognised directly in equity	–	760	–	–	(16,899)	–	–	(16,139)	(7,429)	(23,568)	
Total income and expense for the year recognised directly in equity	–	760	–	–	(16,899)	–	–	(16,139)	(7,429)	(23,568)	
Profit for the year	–	–	–	–	–	766,972	–	766,972	136,640	903,612	
Total income and expense for the year	–	760	–	–	(16,899)	766,972	–	750,833	129,211	880,044	
Final 2005 dividend declared	–	–	–	–	–	–	(239,880)	(239,880)	–	(239,880)	
Disposal of subsidiaries	–	–	–	–	–	–	–	–	(100)	(100)	
Acquisition of minority interests	–	–	–	–	–	–	–	–	(31,069)	(31,069)	
Dividends declared to minority shareholders	–	–	–	–	–	–	–	–	(37,245)	(37,245)	
Capital contributions by minority shareholders	–	–	–	–	–	–	–	–	30,366	30,366	
Transfer from retained profits	–	–	–	66,999	–	(66,999)	–	–	–	–	
Proposed final 2006 dividend	–	–	–	–	–	(143,928)	143,928	–	–	–	
Equity settled share expense	–	–	2,480	–	–	–	–	2,480	–	2,480	
At 31 December 2006	959,522	5,507,184	2,480	1,331,059	(32,880)	2,852,652	143,928	10,763,945	561,892	11,325,837	
At 1 January 2007	959,522	5,507,184	2,480	1,331,059	(32,880)	2,852,652	143,928	10,763,945	561,892	11,325,837	
Exchange realignments and other income recognised directly in equity	–	–	–	–	(32,682)	–	–	(32,682)	(3,647)	(36,329)	
Total income and expense for the year recognised directly in equity	–	–	–	–	(32,682)	–	–	(32,682)	(3,647)	(36,329)	
Profit for the year	–	–	–	–	–	1,252,158	–	1,252,158	199,293	1,451,451	
Total income and expense for the year	–	–	–	–	(32,682)	1,252,158	–	1,219,476	195,646	1,415,122	
Final 2006 dividend declared	–	–	–	–	–	–	(143,928)	(143,928)	–	(143,928)	
Transfer from retained profits	–	–	–	33,699	–	(33,699)	–	–	–	–	
Dividends declared to minority shareholders	–	–	–	–	–	–	–	–	(23,498)	(23,498)	
Capital contributions by minority shareholders	–	–	–	–	–	–	–	–	17,207	17,207	
Proposed final 2007 dividend	12	–	–	–	–	(239,880)	239,880	–	–	–	
Equity settled share expense	39	–	–	297,668	–	–	–	297,668	–	297,668	
At 31 December 2007		959,522	5,507,184*	300,148*	1,364,758*	(65,562)*	3,831,231*	239,880	12,137,161	751,247	12,888,408

\* These reserve accounts comprise the consolidated reserves of approximately RMB10,937,759,000 (2006: RMB9,660,495,000) in the consolidated balance sheet.



# BALANCE SHEET

(Prepared under Hong Kong financial reporting standards)  
Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	15	2,648,279	1,965,507
Prepaid land premiums/land lease payments	16	46,806	48,106
Intangible assets	17	205,754	207,692
Investments in subsidiaries	18	464,286	442,314
Investments in jointly-controlled entities	19	—	2,500
Investments in associates	20	81,782	27,314
Available-for-sale investments	21	41,464	41,488
Long-term trade receivables	24	401,715	328,166
Factored long-term trade receivables	25	3,142,709	1,394,970
Deferred tax assets	37	256,407	194,547
Total non-current assets		7,289,202	4,652,604
<b>CURRENT ASSETS</b>			
Prepaid land premiums/land lease payments	16	1,300	1,300
Inventories	22	1,443,814	1,179,105
Amount due from customers for contract works	23	8,216,361	5,809,647
Trade and bills receivables	24	10,544,856	7,370,341
Factored trade receivables	25	278,668	275,830
Prepayments, deposits and other receivables	26	3,102,129	2,858,750
Derivative financial instruments	29	123,644	—
Pledged bank deposits	30	35,784	35,201
Cash and cash equivalents	30	4,604,365	2,922,719
Total current assets		28,350,921	20,452,893
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	31	12,434,410	8,891,921
Amount due to customers for contract works	23	472,653	991,612
Other payables and accruals	32	4,797,088	2,202,881
Interest-bearing bank borrowings	33	4,045,242	741,827
Bank advances on factored trade receivables	25	278,668	275,830
Tax payable		282,693	162,004
Dividend payables		500	378
Total current liabilities		22,311,254	13,266,453
<b>NET CURRENT ASSETS</b>		6,039,667	7,186,440
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		13,328,869	11,839,044

Continued/...

# BALANCE SHEET

(Prepared under Hong Kong financial reporting standards)  
Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>13,328,869</b>	11,839,044
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings	33	<b>911,322</b>	1,329,478
Bank advances on factored long-term trade receivables	25	<b>3,142,709</b>	1,394,970
Financial guarantee contract	43	<b>3,689</b>	3,689
Provision for retirement benefits	34	<b>34,408</b>	32,058
Other long-term payables	35	<b>80,000</b>	94,404
<b>Total non-current liabilities</b>		<b>4,172,128</b>	2,854,599
<b>Net assets</b>		<b>9,156,741</b>	8,984,445
<b>EQUITY</b>			
Issued capital	38	<b>959,522</b>	959,522
Reserves	40(b)	<b>7,957,339</b>	7,880,995
Proposed final dividend	12	<b>239,880</b>	143,928
<b>Total equity</b>		<b>9,156,741</b>	8,984,445

**Hou Weigui**  
*Director*

**Yin Yimin**  
*Director*

# CONSOLIDATED CASH FLOW STATEMENT

(Prepared under Hong Kong financial reporting standards)  
Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>1,727,734</b>	1,030,690
Adjustments for:			
Finance costs	7	<b>328,301</b>	153,694
Share of profits and losses of jointly-controlled entities		<b>(784)</b>	652
Share of profits of associates		<b>(23,483)</b>	(8,175)
Bank and other interest income	5	<b>(47,536)</b>	(49,050)
Government grants	5	<b>(70,963)</b>	(22,544)
Depreciation	6	<b>511,982</b>	510,333
Recognition of prepaid land lease payments	16	<b>1,449</b>	1,418
Write-down of inventories to net realisable value	6	<b>75,098</b>	52,781
Impairment of trade receivables	6	<b>679,996</b>	111,611
Amortisation of intangible assets	6	<b>102,465</b>	101,558
Loss on disposal of items of property, plant and equipment	6	<b>20,405</b>	13,933
Loss on disposal of intangible assets	6	<b>3,522</b>	952
Gain on settlement of financial derivative instruments	5	<b>(17,708)</b>	—
Gain on disposal of an equity investment at fair value through profit or loss	5	<b>(5,821)</b>	(24,326)
Fair value gain on an equity investment at fair value through profit or loss	5	—	(16,595)
Fair value gain on derivative instruments-transaction not qualifying as hedges	5	<b>(115,566)</b>	—
Recognition of financial guarantee contract	6	—	3,689
Equity settled share expense	6	<b>297,668</b>	2,480
		<b>3,466,759</b>	1,863,101
Increase in long-term trade receivables		<b>(208,304)</b>	(65,037)
Increase in inventories		<b>(2,957,373)</b>	(293,609)
Increase in amount due from customers for contract works		<b>(2,772,811)</b>	(1,144,323)
Increase in trade and bills receivables		<b>(2,447,169)</b>	(2,412,870)
Increase in prepayments, deposits and other receivables		<b>(1,323,303)</b>	(309,464)
Decrease in loan receivables		<b>8,560</b>	24,139
Increase in trade and bills payables		<b>4,811,004</b>	721,873
Increase in amount due to customers for contract works		<b>601,039</b>	262,820
Increase/(decrease) in other payables and accruals		<b>1,020,013</b>	(194,162)
Increase in factored trade receivables		<b>(1,743,503)</b>	(116,432)
Increase in factored long-term trade receivables		—	(711,441)
Bank advances on factored trade receivables		<b>1,743,503</b>	827,873
Cash generated from/(used in) operations		<b>198,415</b>	(1,547,532)

Continued/...

# CONSOLIDATED CASH FLOW STATEMENT

(Prepared under Hong Kong financial reporting standards)  
Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Cash generated from/(used in) operations		198,415	(1,547,532)
Interest received		47,536	49,050
Interest and other finance costs paid		(328,301)	(153,694)
Hong Kong profits tax paid		(10,158)	(2,929)
PRC taxes paid		(121,983)	(82,400)
Overseas taxes paid		(127,380)	(12,591)
Dividends paid		(143,928)	(239,880)
Dividends paid to minority shareholders		(66,259)	(116,312)
Net cash outflow from operating activities		(552,058)	(2,106,288)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of leasehold land		(4,754)	(1,533)
Purchases of items of property, plant and equipment		(1,494,290)	(1,135,742)
Proceeds from disposal of items of property, plant and equipment		18,295	20,851
Additions to intangible assets		(278,179)	(43,887)
Receipt of government grants		106,384	41,416
Acquisition of an equity investment at fair value through profit or loss		—	(39,459)
Proceeds from disposal of an equity investment at fair value through profit or loss		39,109	46,031
Proceeds from settlement of derivative financial instruments		17,708	—
Proceeds from winding up of a jointly controlled entity		4,465	—
Acquisition of associates		(60,000)	(7,134)
Acquisition of minority interests		—	(2,401)
Disposal of subsidiaries	41	—	(289)
(Increase)/decrease in pledged bank deposits		(4,424)	6,902
Net cash outflow from investing activities		(1,655,686)	(1,115,245)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Capital contributions by minority shareholders		17,207	30,366
Proceeds from share incentive scheme		485,931	—
New bank loans		6,981,386	3,093,148
Repayment of bank loans		(3,117,701)	(1,147,875)
Net cash inflow from financing activities		4,366,823	1,975,639
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>2,159,079</b>	<b>(1,245,894)</b>
Cash and cash equivalents at beginning of year		4,142,063	5,397,233
Effect of foreign exchange rate changes, net		8,607	(9,276)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>6,309,749</b>	<b>4,142,063</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	30	6,234,384	3,168,658
Non-pledged time deposits with original maturity of less than three months when acquired		75,365	973,405
		<b>6,309,749</b>	<b>4,142,063</b>

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
31 December 2007

## 1. CORPORATE INFORMATION

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

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

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

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

## 2.1 BASIS OF PREPARATION

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

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company’s subsidiaries. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
31 December 2007

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

HKFRS 7	Financial Instruments: Disclosures
HKAS 1 Amendment	Capital Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The principal effects of adopting these new and revised HKFRSs are as follows:

### (a) HKFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

### (b) Amendment to HKAS 1 Presentation of Financial Statements – Capital Disclosures

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 49 to the financial statements.

### (c) HK(IFRIC)-Int 8 Scope of HKFRS 2

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. The interpretation has had no effect on these financial statements.

### (d) HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

### (e) HK(IFRIC)-Int 10 Interim Financial Reporting and Impairment

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available for sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
31 December 2007

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

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 8	Operating Segments <sup>1</sup>
HKAS 1(Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions <sup>2</sup>
HK(IFRIC)-Int 12	Service Concession Arrangements <sup>4</sup>
HK(IFRIC)-Int 13	Customer Loyalty Programmes <sup>3</sup>
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2008

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 1 has been revised and it sets overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirement for their content. The Group expects to adopt HKAS 1 from 1 January 2009.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
31 December 2007

## 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists. As the Group's defined benefit scheme are unfunded, the Interpretation is unlikely to have any financial impact on the Group.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKAS 1 (revised) and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

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

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

### Joint ventures

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

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

A joint venture is treated as:

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



# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
31 December 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Joint ventures (continued)

- (d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

### Jointly-controlled entities

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

The Group's investments in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transaction between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investment in the jointly-controlled entities, except where unrealised losses provide evidence of impairment of the asset transferred.

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

### Associates

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

The Group's investments in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transaction between the Group and its associates are eliminated to the extent of the Group's investment in the associates, except where unrealised losses provide evidence of impairment of the asset transferred.

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

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
31 December 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of non-financial assets other than goodwill

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

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

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

### Related parties

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) The party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
31 December 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment and depreciation

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

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

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

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

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

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

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

### Intangible assets (other than goodwill)

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

#### *Technology know-how*

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

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
31 December 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Intangible assets (other than goodwill) (continued)

#### *Computer software*

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

#### *Operating concession*

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

#### *Research and development costs*

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

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

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

### Operating leases

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

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

### Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
31 December 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (continued)

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on these financial assets are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policies set and for “Revenue recognition” below.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets in unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as “Other income” in accordance with the policies set out for “Revenue recognition” below. Losses arising from the impairment of such investments are recognised in the income statement as “Impairment losses on available-for-sale financial assets” and are transferred from the available-for-sale investment revaluation reserve.

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

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
31 December 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (continued)

#### *Fair value*

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

#### **Impairment of financial assets**

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

#### *Assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

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

In relation to trade and bills and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant change in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

#### *Assets carried at cost*

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

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
31 December 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets (continued)

#### *Available-for-sale financial assets*

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is “significant” or “prolonged” requires judgement. In addition, the Group evaluates other factors, such as the share price volatility.

### Derecognition of financial assets

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

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

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

### Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and bills and other payables, and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expenses is recognised within “finance costs” in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
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## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

### Derecognition of financial liabilities

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

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

### Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

### Inventories

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

### Construction contracts

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



# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
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## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Construction contracts (continued)

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

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

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

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

### Government grants

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

### Provisions

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

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

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

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

### Income tax

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

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

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
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## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income tax (continued)

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

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

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and investment in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and investment in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

# NOTES TO FINANCIAL STATEMENTS

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## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Employee benefits

#### *Defined contribution pension schemes*

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

#### *Defined benefits pension scheme*

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

#### *Share-based payment transactions*

The Company operates a share incentive scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the operations of the Group. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using an appropriate pricing model, further details of which are given in note 39. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

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 (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

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## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Employee benefits (continued)

#### *Share-based payment transactions (continued)*

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost capitalised.

### Foreign currencies

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

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

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

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
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## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Cash and cash equivalents

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

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

### Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the telecommunication system contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above;
- (c) from the rendering of services, when services are rendered;
- (d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;
- (e) dividend income, when the shareholders' right to receive payment has been established; and
- (f) for contracts involving multiple deliverables, where the deliverables are governed by more than one authoritative accounting standard, the Group generally will evaluate each deliverable to determine whether it represents a separate unit of accounting based on the following criteria: (a) whether the delivered item has value to the customer on a standalone basis, (b) whether there is objective and reliable evidence of the fair value of the undelivered item(s), and (c) if the contract includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Group. If objective and reliable evidence of fair value exists for all units of accounting in the arrangement, revenue is allocated to each unit of accounting or element based on relative fair values. In situations where there is objective and reliable evidence of fair value for all undelivered elements, but not for delivered elements, the residual method is used to allocate the contract consideration. Under the residual method, the amount of revenue allocated to delivered elements equals the total arrangement consideration less the aggregate fair value of any undelivered elements. Each unit of accounting is then accounted for under the applicable revenue recognition guidance. So long as elements otherwise governed by separate authoritative accounting standards cannot be treated as separate units of accounting, the elements are combined into a single unit of accounting for revenue recognition purposes. In this case, revenue allocated to the unit of accounting is deferred until all combined elements have been delivered or, once there is only one remaining element to be delivered, based on the revenue recognition guidance applicable to the last delivered element within the unit of accounting.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
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## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Dividends

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

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Judgements

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

#### *Revenue recognition*

The Group's material revenue streams are the result of a wide range of activities, from custom design and installation over a period of time to a single delivery of equipment to a customer. The Group's networking solutions also cover a broad range of technologies and are offered on a global basis. As a result, our revenue recognition policies can differ depending on the level of customisation within the solution and the contractual terms with the customer. Newer technologies within one of the Group's reporting segments may also have different revenue recognition policies, depending on, among other factors, the specific performance and acceptance criteria within the applicable contracts. Therefore, management must use significant judgement in determining how to apply the current accounting standards and interpretations, not only based on the networking solutions, but also within networking solutions based on reviewing the level of customisation and contractual terms with the customer. As a result, our revenues may fluctuate from period to period based on the mix of solutions sold and the geographic region in which they are sold.

When a customer arrangement involves multiple deliverables where the deliverables are governed by more than one authoritative standard, the Group evaluates all deliverables to determine whether they represent separate units of accounting based on the following criteria:

- whether the delivered item has value to the customer on a stand alone basis;
- whether there is objective and reliable evidence of the fair value of the undelivered item(s); and
- if the contract includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and is substantially in the Group's control.

# NOTES TO FINANCIAL STATEMENTS

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## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

### Judgements (continued)

#### *Revenue recognition (continued)*

The Group's determination of whether deliverables within a multiple element arrangement can be treated separately for revenue recognition purposes involves significant estimates and judgements, such as whether fair value can be established on undelivered obligations and/or whether delivered elements have standalone value to the customer. Changes to the Group's assessment of the accounting units in an arrangement and/or its ability to establish fair values could significantly change the timing of revenue recognition.

If objective and reliable evidence of fair value exists for all units of accounting in the contract, revenue is allocated to each unit of accounting or element based on relative fair values. In situations where there is objective and reliable evidence of fair value for all undelivered elements, but not for delivered elements, the residual method is used to allocate the contract consideration. Under the residual method, the amount of revenue allocated to delivered elements equals the total arrangement consideration less the aggregate fair value of any undelivered elements. Each unit of accounting is then accounted for under the applicable revenue recognition guidance. If sufficient evidence of fair value cannot be established for an undelivered element, revenue related to delivered elements is deferred until the earlier of when sufficient fair value is established and when all remaining elements have been delivered. Once there is only one remaining element to be delivered within the unit of accounting, the deferred revenue is recognised based on the revenue recognition guidance applicable to the last delivered element. For instance, where post-contract support is the last delivered element within the unit of accounting, the deferred revenue is recognised ratably over the remaining post-contract support term once post-contract support is the only undelivered element.

The Group's assessment of which revenue recognition guidance is appropriate for accounting for a deliverable also can involve significant judgement. For instance, the determination of whether software is more than incidental to hardware can impact on whether the hardware is accounted for based on software revenue recognition guidance or based on general revenue recognition guidance. This assessment could significantly impact the amount and timing of revenue recognition.

For elements related to customised network solutions and certain network build-outs, revenues are recognised under the HKAS 11 *Construction Contracts*, generally using the percentage-of-completion method. In using the percentage-of-completion method, revenues are generally recorded based on a measure of the percentage of costs incurred to date on a contract relative to the estimated total expected contract costs. Profit estimates on long-term contracts are revised periodically based on changes in circumstances and any losses on contracts are recognised in the period that such losses become known. Generally, the terms of long-term contracts that provide for progress billing are based on completion of certain phases of work. Contract revenues recognised, based on costs incurred towards the completion of the project, that are unbilled are accumulated in the contracts in progress account included in amount due from customers for contract works. Billings in excess of revenues recognised to date on long-term contracts are recorded as advance billings in excess of revenues recognised to date on contracts within amount due to customers for contract works. Significant judgement is often required when estimating total contract costs and progress to completion on these arrangements, as well as whether a loss is expected to be incurred on the contract. Management uses historical experience, project plans and an assessment of the risks and uncertainties inherent in the arrangement to establish these judgments. Uncertainties include implementation delays or performance issues that may or may not be within the control of the Group. Changes in these estimates could result in a material impact on revenues and net earnings.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
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## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

### Judgements (continued)

#### *Revenue recognition (continued)*

Revenue for hardware that does not require significant customisation, and where any software is considered incidental, is recognised under HKAS 18 *Revenue*, revenue is recognised provided that persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fee is fixed or determinable and collectibility is reasonably assured.

For hardware, delivery is considered to have occurred upon shipment provided that the risk of loss, and title in certain jurisdictions, have been transferred to the customer. For arrangements where the criteria for revenue recognition have not been met because legal title or the risk of loss on products was not transfer to the buyer until final payment had been received or where delivery had not occurred, revenue is deferred to a later period when title or the risk of loss passes either on delivery or on receipt of payment from the customer.

For further information on the Group's revenue recognition policies relating to our material revenue streams, please refer to note 2.4 to these consolidated financial statements.

### Estimation uncertainty

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

#### *Impairment of intangible assets and property, plant and equipment*

The Group determines whether intangible assets and property, plant and equipment are impaired when there is an indication of impairment. This requires an estimation of the value in use of the cash-generating units to which the intangible assets and property, plant and equipment were allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of property, plant and equipment was approximately RMB3,954,809,000 (2006: RMB3,053,019,000). The carrying amount of intangible assets at 31 December 2007 was RMB443,777,000 (2006: RMB274,905,000). More details are set out in notes 15 and 17.

Management carries out impairment review on intangible assets and property, plant and equipment by comparing the lower of their carrying amounts and their recoverable amounts respectively.

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



# NOTES TO FINANCIAL STATEMENTS

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## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

### Estimation uncertainty (continued)

#### *Impairment of trade receivables*

In determining whether there is objective evidence of an impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

#### *Equity settled share expense*

The estimated cost of the share incentive scheme is recognised in income statements based on estimation of various assumptions.

One of the major factors that could impact the cost is the turnover rate of respective participants under the scheme. In situation that the actual turnover rate is less than the management estimation, such cost would be higher.

#### *Depreciation and amortisation*

The Group's net book value of property, plant and equipment as at 31 December 2007 was approximately RMB3,954,809,000 (2006: RMB3,053,019,000). The Group depreciates items of property, plant and equipment on the straight-line basis over their estimated useful lives, and after taking into account their estimated residual values, commencing from the date the items of property, plant and equipment are placed into productive use. The estimated useful lives and dates that the Group places the items of property, plant and equipment into productive use reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of these items of property, plant and equipment.

#### *Deferred tax assets*

As at 31 December 2007, deferred tax assets of approximately RMB295,750,000 have been recognised in the Group's balance sheet. The realisability of the deferred tax assets mainly depend on whether sufficient future profits or taxable temporary differences will be realised in the future. Since the Group is expecting a growth in profits to be generated in the future based on management estimation, the directors of the Company consider that the deferred tax assets could be fully utilised in the future, and would be recognised in the income statement for the period in which such a reversal takes place.

## 4. SEGMENT INFORMATION

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

# NOTES TO FINANCIAL STATEMENTS

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## 4. SEGMENT INFORMATION (continued)

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

- The wireless communications segment engages in the provision of systems integration and the sale of equipment for mobile phone network systems, primarily in respect of CDMA, GSM and wireless local access (PHS) systems.
- The wireline switch and access segment engages in the manufacture and sale of wireline, circuit-switches and narrow-band access systems for fixed line phone systems.
- The optical and data communications segment engages in the provision of DSL systems, SDH, WDM systems and softswitch systems, broadband routing switches, wireless access data products and other data communications products.
- The handsets segment engages in the manufacture and sale of CDMA and GSM mobile phone handsets and wireless local access (PHS) handsets.
- The telecommunications software systems and services and other products segment represented the provision of telecommunications software systems such as operation support systems and the provision of fee-based services.

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

### (a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2007.

#### Group

	Wireless communications		Wireline switch and access		Optical and data communications		Handsets		Telecommunications software systems, services and other products		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:												
Telecommunications system contracts	14,851,493	9,186,920	1,350,148	2,279,424	6,365,850	3,874,634	—	—	2,134,214	1,912,160	24,701,705	17,253,138
Sale of goods and services	—	—	—	—	—	—	7,645,126	4,519,492	2,430,350	1,441,950	10,075,476	5,961,442
Total	14,851,493	9,186,920	1,350,148	2,279,424	6,365,850	3,874,634	7,645,126	4,519,492	4,564,564	3,354,110	34,777,181	23,214,580
Segment results	4,536,398	2,604,063	397,073	593,821	1,068,583	364,028	663,065	512,429	165,506	499,637	6,830,625	4,573,978
Interest and unallocated gains											1,028,001	724,678
Unallocated expenses											(5,826,858)	(4,121,795)
Finance costs											(328,301)	(153,694)
Share of profits and losses of:												
Jointly-controlled entities											784	(652)
Associates											23,483	8,175
Profit before tax											1,727,734	1,030,690
Tax											(276,283)	(127,078)
Profit for the year											1,451,451	903,612

# NOTES TO FINANCIAL STATEMENTS

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## 4. SEGMENT INFORMATION (continued)

### (a) Business segments (continued)

#### Group

	Wireless communications		Wireline switch and access		Optical and data communications		Handsets		Telecommunications software systems, services and other products		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets and liabilities												
Segment assets	10,988,278	7,928,525	1,097,793	1,979,726	4,907,050	3,352,383	3,976,918	2,368,637	4,141,340	1,124,605	25,111,379	16,753,876
Investments in jointly-controlled entities	—	—	—	—	—	—	—	—	—	—	2,255	5,936
Investments in associates	—	—	—	—	—	—	—	—	—	—	134,764	51,257
Unallocated assets											15,729,539	9,976,177
Total assets											40,977,937	26,787,246
Segment liabilities	1,610,709	491,760	155,801	56,382	553,440	560,098	183,649	254,266	584,934	269,644	3,088,533	1,632,150
Unallocated liabilities											25,000,996	13,829,259
Total liabilities											28,089,529	15,461,409
Other segment information:												
Depreciation and amortisation	232,337	218,625	21,096	61,374	149,000	140,369	89,385	137,870	122,629	53,653	614,447	611,891
Capital expenditure	683,648	422,669	62,074	118,655	438,431	271,375	263,014	266,542	358,056	103,729	1,805,223	1,182,970

### (b) Geographical segments

The following table presents revenue and asset information for the Group's geographical segments as at 31 December 2006 and 2007.

#### Group

	The PRC		Asia (excluding the PRC)		Africa		Others		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:										
Telecommunications system contracts	12,460,366	9,879,161	6,677,595	3,918,344	3,431,340	2,392,356	2,132,404	1,063,277	24,701,705	17,253,138
Sale of goods and services	2,226,230	3,023,605	3,001,776	1,868,800	2,053,491	204,464	2,793,979	864,573	10,075,476	5,961,442
	14,686,596	12,902,766	9,679,371	5,787,144	5,484,831	2,596,820	4,926,383	1,927,850	34,777,181	23,214,580
Other segment information:										
Segment assets	28,752,355	24,710,761	9,653,953	1,231,856	1,271,222	653,400	1,300,407	191,229	40,977,937	26,787,246

# NOTES TO FINANCIAL STATEMENTS

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## 5. REVENUE, OTHER INCOME AND GAINS

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

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

	2007 RMB'000	2006 RMB'000
<b>Revenue</b>		
Telecommunications systems contracts	24,701,705	17,253,138
Sale of goods and services	10,075,476	5,961,442
	<b>34,777,181</b>	23,214,580
<b>Other income</b>		
Government grants	70,963	22,544
VAT subsidies, exemptions and refunds#	770,407	612,163
Bank and other interest income	47,536	49,050
	<b>888,906</b>	683,757
<b>Gains</b>		
Fair value gain on an equity investment at fair value through profit or loss	—	16,595
Gain on settlement of derivative financial instrument	17,708	—
Gain on disposal of an equity investment at fair value through profit or loss	5,821	24,326
Fair value gain on derivative financial instruments-transactions not qualified as hedges	115,566	—
	<b>139,095</b>	40,921
	<b>1,028,001</b>	724,678

# During the years ended 31 December 2006 and 2007, the Company received VAT subsidies regarding the VAT paid for high-technology products as approved by the Shenzhen Economic and Trade Bureau (深圳市經濟貿易局), Shenzhen Science and Technology Bureau (深圳市科技局), Shenzhen Finance Bureau (深圳市財政局), Shenzhen State Tax Bureau (深圳市國家稅務局), Shenzhen Local Tax Bureau (深圳市地方稅務局) and Nanjing State Tax Bureau (南京市國家稅務局). In addition, for the years ended 31 December 2006 and 2007, Shenzhen Zhongxing Software Company, Limited ("Zhongxing Software") and Nanjing Zhongxing Software Company, Limited, being a designated software enterprise, were entitled to VAT refunds on the effective VAT rate in excess of 3% after the payment of statutory net output VAT of 17%. Such VAT refunds were approved the Shenzhen State Tax Bureau (深圳市國家稅務局) and Nanjing State Tax Bureau (南京市國家稅務局) and had been received by Zhongxing Software and Nanjing Zhongxing Software Company, Limited.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
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## 6. PROFIT BEFORE TAX

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

	Notes	2007 RMB'000	2006 RMB'000
Cost of inventories sold		<b>21,662,725</b>	14,295,410
Depreciation	15	<b>511,982</b>	510,333
Amortisation of intangible assets other than deferred development costs	17	<b>50,224</b>	49,201
Amortisation of deferred development costs**	17	<b>52,241</b>	52,357
		<b>102,465</b>	101,558
Impairment of trade receivables*	24	<b>679,996</b>	111,611
Provision for warranties**	36	<b>61,793</b>	114,724
Write-down of inventories to net realisable value**		<b>75,098</b>	52,781
Minimum lease payments under operating leases on land and buildings		<b>388,131</b>	206,054
Contingent rent receivable in respect of an operating lease		<b>(24,075)</b>	(27,813)
Auditors' remuneration		<b>6,410</b>	6,080
Staff costs (including directors' and supervisors' remuneration — note 8):			
Wages, salaries, bonuses, allowances and welfares		<b>4,671,714</b>	3,103,539
Equity settled share expense		<b>297,668</b>	2,480
Pension scheme contributions:			
Defined benefits pension scheme — note 34		<b>3,087</b>	2,787
Defined contribution pension scheme		<b>217,942</b>	208,596
		<b>5,190,411</b>	3,317,402
Foreign exchange differences, net*		<b>62,567</b>	29,422
Loss on disposal of items of property, plant and equipment*		<b>20,405</b>	13,933
Loss on disposal of intangible assets*	17	<b>3,522</b>	952
Recognition of financial guarantee contract*		<b>—</b>	3,689

\* The impairment of trade receivables, foreign exchange differences, recognition of financial guarantee contract, loss on disposal of items of property, plant and equipment and loss on disposal of intangible assets are included in "Other expenses" on the face of the consolidated income statement.

\*\* The provision for product warranties, amortisation of deferred development costs and write-down of inventories to net realisable value are included in "Cost of sales" on the face of the consolidated income statement.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
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## 7. FINANCE COSTS

	Group	
	2007	2006
	RMB'000	RMB'000
Interest on bank loans wholly repayable within five years	213,925	58,817
Finance costs on trade receivables factored and bills discounted	114,376	94,877
	<b>328,301</b>	153,694

## 8. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	Group	
	2007	2006
	RMB'000	RMB'000
Fees	—	—
Other emoluments of executive directors and supervisors:		
Salaries, bonuses, allowances and welfare	3,192	2,795
Performance related bonuses	4,924	3,171
Share incentive scheme	1,800	15
Retirement benefits scheme contributions	96	51
	<b>10,012</b>	6,032

During the year, certain directors were granted shares under a share incentive scheme in respect of their services to the Group, further details of which are set out in note 39 to the financial statements. The fair value of such shares, which has been recognised in the income statement, was determined as at the date of grant and the amount included in the financial statements for the year is included in the above directors' remuneration disclosures.

### (a) Independent non-executive directors

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

	2007		2006	
	RMB'000		RMB'000	
Zhu Wuxiang	90	60		
Chen Shaohua	90	60		
Mi Zhengkun	90	60		
Li Jin	90	60		
Qiao Wenjun	90	60		
	<b>450</b>	300		

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
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## 8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

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

	Fees RMB'000	Salaries, bonuses, allowances and welfare RMB'000	Performance related bonuses RMB'000	Share incentive scheme RMB'000	Retirement benefits scheme contributions RMB'000	Total remuneration RMB'000
<b>2007</b>						
<i>Executive directors:</i>						
Yin Yimin	—	441	1,384	—	19	1,844
Shi Lirong	—	376	800	—	19	1,195
He Shiyou	—	400	950	—	26	1,376
	—	1,217	3,134	—	64	4,415
<i>Non-executive directors:</i>						
Hou Weigui	—	332	678	—	—	1,010
Wang Zongyin	—	90	—	360	—	450
Xie Weiliang	—	90	—	360	—	450
Zhang Junchao	—	90	—	360	—	450
Li Juping	—	90	—	360	—	450
Dong Lianbo	—	90	—	360	—	450
	—	1,999	3,812	1,800	64	7,675
<i>Supervisors:</i>						
Zhang Taifeng	—	329	678	—	—	1,007
Wang Wangxi	—	264	260	—	19	543
He Xuemei	—	150	174	—	13	337
Qu Deqian	—	—	—	—	—	—
Wang Yan	—	—	—	—	—	—
	—	743	1,112	—	32	1,887
<b>2006</b>						
<i>Executive directors:</i>						
Yin Yimin	—	422	1,141	—	9	1,572
Shi Lirong	—	354	420	—	9	783
He Shiyou	—	359	450	—	17	826
	—	1,135	2,011	—	35	3,181
<i>Non-executive directors:</i>						
Hou Weigui	—	332	405	—	—	737
Wang Zongyin	—	60	—	3	—	63
Xie Weiliang	—	60	—	3	—	63
Zhang Junchao	—	60	—	3	—	63
Li Juping	—	60	—	3	—	63
Dong Lianbo	—	60	—	3	—	63
	—	1,767	2,416	15	35	4,233
<i>Supervisors:</i>						
Zhang Taifeng	—	329	405	—	—	734
Wang Wangxi	—	249	248	—	9	506
He Xuemei	—	150	102	—	7	259
Qu Deqian	—	—	—	—	—	—
Wang Yan	—	—	—	—	—	—
	—	728	755	—	16	1,499

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

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
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## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included no (2006: Nil) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the five (2006: five) non-director and non-supervisor, highest paid employees for the year are as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Salaries, bonuses, allowances and welfare	7,034	6,394
Performance related bonuses	4,327	1,041
Retirement benefits scheme contributions	2,082	1,030
	<b>13,443</b>	<b>8,465</b>

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

	Number of employees	
	2007	2006
RMB1,500,001 to RMB2,000,000	—	5
RMB2,000,001 to RMB2,500,000	1	—
RMB2,500,001 to RMB3,000,000	3	—
RMB3,000,001 to RMB3,500,000	1	—
	<b>5</b>	<b>5</b>

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

## 10. TAX

	2007	2006
	RMB'000	RMB'000
Group:		
Current — Hong Kong	3,205	6,951
Current — Mainland China	135,778	106,449
Current — Overseas	222,127	165,014
Deferred tax credited (note 37)	(84,827)	(151,336)
Total tax charge for the year	<b>276,283</b>	<b>127,078</b>

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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



# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
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## 10. TAX (continued)

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

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

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

	2007		2006	
	RMB'000	%	RMB'000	%
Profit before tax	<b>1,727,734</b>		1,030,690	
Tax at statutory tax rate	<b>570,152</b>	<b>33.0</b>	340,128	33.0
Lower tax rate for specific provinces or local authority	<b>(310,992)</b>	<b>(18.0)</b>	(185,539)	(18.0)
Expenses not deductible for tax	<b>229,342</b>	<b>13.3</b>	97,993	9.5
Income not subject to tax	<b>(129,417)</b>	<b>(7.5)</b>	(36,595)	(3.6)
Tax holiday	<b>(91,503)</b>	<b>(5.3)</b>	(96,883)	(9.4)
Profits and losses attributable to jointly-controlled entities and associates	<b>(1,869)</b>	<b>(0.1)</b>	(1,129)	(0.1)
Tax losses utilised from previous years	<b>(1,680)</b>	<b>(0.1)</b>	(11,146)	(1.1)
Other tax allowances	<b>(56,944)</b>	<b>(3.3)</b>	(72,480)	(7.0)
Tax losses of subsidiaries	<b>69,194</b>	<b>4.0</b>	92,729	9.0
Tax charge at the Group's effective rate	<b>276,283</b>	<b>16.0</b>	127,078	12.3

No share of tax attributable to jointly-controlled entities is included in "Share of profits and losses of jointly-controlled entities" on the face of the consolidated income statement (2006: Nil).

No share of tax attributable to associates is included in "Share of profits and losses of associates" on the face of the consolidated income statement (2006: Nil).

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, which results in a reduction of income tax rate from 33% to 25%. The effect of this change has been reflected in the calculation of deferred income tax as at 31 December 2007.

## 11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2007 includes a profit of approximately RMB20,714,000 (2006: RMB831,130,000) which has been dealt with in the financial statements of the Company (note 40(b)).

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
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## 12. DIVIDEND

	2007	2006
	RMB'000	RMB'000
Proposed final – RMB0.25 (2006: RMB0.15) per ordinary share	<b>239,880</b>	143,928

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

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

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent of RMB1,252,158,000 (2006: RMB766,972,000) and the weighted average number of 959,521,650 (2006: 959,521,650) ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of RMB1,252,158,000 (2006: RMB766,972,000) and the weighted average number of 959,521,650 (2006: 959,521,650) shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of 9,596,000 shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential shares into shares.

## 14. DISTRIBUTION OF PROFIT

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 reserves (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 expansion fund, reserve fund and employee bonus and welfare fund. The allocation rates are determined by their respective board of directors.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
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## 15. PROPERTY, PLANT AND EQUIPMENT

### Group

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery, computer and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
<b>31 December 2007</b>						
At 31 December 2006 and at 1 January 2007:						
Cost	882,918	71,704	3,016,304	238,044	469,636	4,678,606
Accumulated depreciation and impairment	(148,551)	(47,373)	(1,349,452)	(80,211)	—	(1,625,587)
Net carrying amount	734,367	24,331	1,666,852	157,833	469,636	3,053,019
At 1 January 2007, net of accumulated depreciation and impairment	734,367	24,331	1,666,852	157,833	469,636	3,053,019
Additions	25,236	33,393	625,816	45,091	764,754	1,494,290
Disposals	—	—	(31,083)	(7,617)	—	(38,700)
Depreciation provided during the year	(33,434)	(25,890)	(426,869)	(25,789)	—	(511,982)
Transfers	224,179	3,958	75,163	—	(303,300)	—
Exchange realignments	(352)	(112)	(40,780)	(574)	—	(41,818)
At 31 December 2007, net of accumulated depreciation and impairment	949,996	35,680	1,869,099	168,944	931,090	3,954,809
At 31 December 2007:						
Cost	1,131,907	107,368	3,522,322	262,118	931,090	5,954,805
Accumulated depreciation and impairment	(181,911)	(71,688)	(1,653,223)	(93,174)	—	(1,999,996)
Net carrying amount	949,996	35,680	1,869,099	168,944	931,090	3,954,809
31 December 2006						
At 31 December 2005 and at 1 January 2006:						
Cost	865,216	51,631	2,414,643	210,369	140,737	3,682,596
Accumulated depreciation and impairment	(115,695)	(28,046)	(1,003,661)	(64,229)	—	(1,211,631)
Net carrying amount	749,521	23,585	1,410,982	146,140	140,737	2,470,965
At 1 January 2006, net of accumulated depreciation and impairment	749,521	23,585	1,410,982	146,140	140,737	2,470,965
Additions	584	10,482	694,826	40,399	389,451	1,135,742
Disposals	—	—	(29,911)	(4,873)	—	(34,784)
Depreciation provided during the year	(32,891)	(19,327)	(434,526)	(23,589)	—	(510,333)
Transfers	17,587	9,591	33,374	—	(60,552)	—
Exchange realignments	(434)	—	(7,893)	(244)	—	(8,571)
At 31 December 2006, net of accumulated depreciation and impairment	734,367	24,331	1,666,852	157,833	469,636	3,053,019
At 31 December 2006:						
Cost	882,918	71,704	3,016,304	238,044	469,636	4,678,606
Accumulated depreciation and impairment	(148,551)	(47,373)	(1,349,452)	(80,211)	—	(1,625,587)
Net carrying amount	734,367	24,331	1,666,852	157,833	469,636	3,053,019

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
31 December 2007

## 15. PROPERTY, PLANT AND EQUIPMENT (continued)

### Company

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery, computer and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
<b>31 December 2007</b>						
At 31 December 2006 and at 1 January 2007:						
Cost	833,861	44,315	1,378,237	172,135	402,430	2,830,978
Accumulated depreciation and impairment	(134,722)	(28,585)	(646,331)	(55,833)	—	(865,471)
Net carrying amount	699,139	15,730	731,906	116,302	402,430	1,965,507
At 1 January 2007, net of accumulated depreciation and impairment	699,139	15,730	731,906	116,302	402,430	1,965,507
Additions	—	3,958	472,460	22,914	634,357	1,133,689
Disposals	—	—	(24,210)	(4,822)	—	(29,032)
Transfers from subsidiaries	—	—	23,777	2,721	—	26,498
Transfers to subsidiaries	—	—	(179,419)	(3,729)	—	(183,148)
Depreciation provided during the year	(29,564)	(8,967)	(209,860)	(16,844)	—	(265,235)
Transfers	219,000	—	—	—	(219,000)	—
Exchange realignments	4	—	(3)	(1)	—	—
At 31 December 2007, net of accumulated depreciation and impairment	888,579	10,721	814,651	116,541	817,787	2,648,279
At 31 December 2007:						
Cost	1,052,762	48,273	1,614,369	181,469	817,787	3,714,660
Accumulated depreciation and impairment	(164,183)	(37,552)	(799,718)	(64,928)	—	(1,066,381)
Net carrying amount	888,579	10,721	814,651	116,541	817,787	2,648,279

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
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## 15. PROPERTY, PLANT AND EQUIPMENT (continued)

### Company (continued)

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery, computer and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2006						
At 31 December 2005 and at 1 January 2006:						
Cost	833,910	34,724	1,385,321	154,964	77,261	2,486,180
Accumulated depreciation and impairment	(102,885)	(23,112)	(596,068)	(45,568)	—	(767,633)
Net carrying amount	731,025	11,612	789,253	109,396	77,261	1,718,547
At 1 January 2006, net of accumulated depreciation and impairment	731,025	11,612	789,253	109,396	77,261	1,718,547
Additions	—	—	407,546	32,558	368,134	808,238
Disposals	—	—	(11,000)	(3,785)	—	(14,785)
Transfers from subsidiaries	—	—	22,141	1,090	—	23,231
Transfers to subsidiaries	—	—	(295,655)	(6,938)	—	(302,593)
Depreciation provided during the year	(31,836)	(5,473)	(213,725)	(16,092)	—	(267,126)
Transfers	—	9,591	33,374	—	(42,965)	—
Exchange realignments	(50)	—	(28)	73	—	(5)
At 31 December 2006, net of accumulated depreciation and impairment	699,139	15,730	731,906	116,302	402,430	1,965,507
At 31 December 2006:						
Cost	833,861	44,315	1,378,237	172,135	402,430	2,830,978
Accumulated depreciation and impairment	(134,722)	(28,585)	(646,331)	(55,833)	—	(865,471)
Net carrying amount	699,139	15,730	731,906	116,302	402,430	1,965,507

As at 31 December 2007, the Group was in the process of obtaining the real estate title certificate for buildings located in Nanjing and Shenzhen, the PRC, with a net book value of approximately RMB86,300,000 (2006: RMB Nil) and RMB238,060,000 (2006: RMB238,060,000), included in the Group's buildings.

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## 15. PROPERTY, PLANT AND EQUIPMENT (continued)

Approximately RMB33,494,000 (2006: RMB40,416,000) of the Group's machinery, computer and office equipment represented telecommunications equipment that has been leased to a third party for the operation of a wireless network. According to the respective contract, the lease payment will be made to the Group's subsidiary by way of sharing a certain portion of the revenue generated from such telecommunications network for a period of five years where the ownership of these telecommunications equipment will be retained by the subsidiary during the five-year period. During the five-year period, the Group will be solely responsible for the safeguard and the maintenance of the network. Considering that the risk in relation to the assets has not been substantially transferred to the third party, the directors are of the view that such arrangement should be accounted for as operating lease.

At 31 December 2007, the real estate title certificate for certain of the Group's buildings with a total net book value of approximately RMB117.2 million (2006: RMB117.2 million) were held by the court as security in relation to a litigation proceeding (note 42(b)).

## 16. PREPAID LAND PREMIUMS/LAND LEASE PAYMENTS

### Group

	2007 RMB'000	2006 RMB'000
Carrying amount at 1 January	56,595	56,480
Additions during the year	4,754	1,533
Recognised during the year	(1,449)	(1,418)
Carrying amount at 31 December	59,900	56,595
Current portion	(1,543)	(1,449)
Non-current portion	58,357	55,146

Various pieces of leasehold land are held under medium term leases and are situated in Mainland China.

### Company

	2007 RMB'000	2006 RMB'000
Carrying amount at 1 January	49,406	50,706
Recognised during the year	(1,300)	(1,300)
Carrying amount at 31 December	48,106	49,406
Current portion	(1,300)	(1,300)
Non-current portion	46,806	48,106

# NOTES TO FINANCIAL STATEMENTS

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## 16. PREPAID LAND PREMIUMS/LAND LEASE PAYMENTS (continued)

Various pieces of leasehold land are held under medium term leases and are situated in Mainland China.

As at 31 December 2007, the Group was in the process of obtaining the land use right certificates of a piece of land located in Anhui, the PRC, with net book values of approximately RMB2,600,000.

## 17. INTANGIBLE ASSETS

### Group

	Technology know-how RMB'000	Computer software RMB'000	Operating concession RMB'000	Deferred development costs RMB'000	Total RMB'000
<b>31 December 2007:</b>					
Cost at 1 January 2007, net of accumulated amortisation and impairment	1,038	92,643	51,474	129,750	274,905
Additions	—	96,698	—	181,481	278,179
Retirements and disposals	—	(3,522)	—	—	(3,522)
Amortisation provided during the year	(308)	(46,477)	(3,439)	(52,241)	(102,465)
Exchange realignments	—	—	(3,320)	—	(3,320)
At 31 December 2007	730	139,342	44,715	258,990	443,777
At 31 December 2007:					
Cost	1,354	363,946	98,619	421,100	885,019
Accumulated amortisation and impairment	(624)	(224,604)	(53,904)	(162,110)	(441,242)
Net carrying amount	730	139,342	44,715	258,990	443,777
<b>31 December 2006:</b>					
Cost at 1 January 2006, net of accumulated amortisation and impairment	1,356	96,108	56,264	182,107	335,835
Additions	—	42,715	1,172	—	43,887
Retirements and disposals	—	(480)	(472)	—	(952)
Exchange realignments	—	—	(2,307)	—	(2,307)
Amortisation provided during the year	(318)	(45,700)	(3,183)	(52,357)	(101,558)
At 31 December 2006	1,038	92,643	51,474	129,750	274,905
At 31 December 2006:					
Cost	1,356	268,722	68,007	239,619	577,704
Accumulated amortisation and impairment	(318)	(176,079)	(16,533)	(109,869)	(302,799)
Net carrying amount	1,038	92,643	51,474	129,750	274,905

# NOTES TO FINANCIAL STATEMENTS

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## 17. INTANGIBLE ASSETS (continued)

### Company

	<b>Computer software RMB'000</b>	<b>Deferred development costs RMB'000</b>	<b>Total RMB'000</b>
<b>31 December 2007:</b>			
Cost at 1 January 2007, net of accumulated amortisation and impairment	77,942	129,750	207,692
Additions	45,824	44,637	90,461
Retirements and disposals	(3,448)	—	(3,448)
Amortisation provided during the year	(42,187)	(46,764)	(88,951)
At 31 December 2007	78,131	127,623	205,754
At 31 December 2007:			
Cost	294,552	284,256	578,808
Accumulated amortisation and impairment	(216,421)	(156,633)	(373,054)
Net carrying amount	78,131	127,623	205,754
<b>31 December 2006:</b>			
Cost at 1 January 2006, net of accumulated amortisation and impairment	86,320	182,107	268,427
Additions	33,843	—	33,843
Retirements and disposals	(334)	—	(334)
Amortisation provided during the year	(41,887)	(52,357)	(94,244)
At 31 December 2006	77,942	129,750	207,692
At 31 December 2006:			
Cost	250,127	239,620	489,747
Accumulated amortisation and impairment	(172,185)	(109,870)	(282,055)
Net carrying amount	77,942	129,750	207,692

## 18. INVESTMENTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2007 RMB'000</b>	2006 RMB'000
Unlisted shares, at cost	<b>577,351</b>	555,379
Less: Impairment#	<b>(113,065)</b>	(113,065)
	<b>464,286</b>	442,314

# An impairment was recognised for certain unlisted investments, with a carry amount of RMB268,877,000 (before deducting the impairment loss) (2006: RMB257,365,000) because, the respective subsidiaries are loss making. There was no change in the impairment account during the current and prior years.

The Company's trade and bills receivable, other receivable, trade and bills payables and other payable balances with the subsidiaries are disclosed in notes 24, 26, 31 and 32, to the financial statements respectively. The amounts due from/to subsidiaries are unsecured, interest-free and are repayable on demand.



# NOTES TO FINANCIAL STATEMENTS

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## 18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
ZTE Kangxun Telecom Company, Limited ("Kangxun") # (i) (深圳市中興康訊電子有限公司)	The PRC/ Mainland China	RMB50,000,000	90	—	Manufacture and sale of electronic components
ZTE Soft Technology Co., Limited ("ZTE Soft") (ii) (南京中興軟創科技有限責任公司)	The PRC/ Mainland China	US\$7,231,029	76	—	Development, manufacture and marketing of computer software and digital equipment
Shenzhen Zhongxing Software Company, Limited ("Zhongxing Software") # (ii) (深圳中興軟件有限責任公司)	The PRC/ Mainland China	RMB50,000,000	73	25	Development of telecommunications systems software and provision of related consultancy services
Wuxi Zhongxing Optoelectronics Technologies Company, Limited ("Wuxi Zhongxing") # (i) (無錫中興光電子技術有限公司)	The PRC/ Mainland China	RMB10,000,000	65	—	Development of technology for optical electronic products and provision of related technical services
ZTE Integration Telecom Ltd. # (i) (深圳市中興集訊通信有限公司)	The PRC/ Mainland China	RMB55,000,000	75	5	Development, manufacture and sale of information technology products
ZTE Mobile Tech Co., Limited ("ZTE Mobile") # (i) (深圳市中興移動通信有限公司)	The PRC/ Mainland China	RMB39,583,000	80	—	Development, manufacture and sale of telecommunications related products
ZTE (H.K.) Limited (中興通訊(香港)有限公司)	Hong Kong	HK\$50,000,000	100	—	Marketing and sale of telecommunications systems equipment and provision of management services
Anhui Wantong Posts and Telecommunications Company, Limited ("Anhui Wantong") # (i) (安徽皖通郵電股份有限公司)	The PRC/ Mainland China	RMB22,214,400	51	—	Development, manufacture and sale of computer software and integrated information systems
ZTE Telecom India Private Limited Company, Limited ("ZTE India") (中興通訊印度私人有限公司)##	India	US\$1,222,000	100	—	Marketing and sale of telecommunications systems equipment and provision of management services
ZTE Technical Service Co., Limited ("ZTE Service") # (i) (深圳市中興技術服務有限責任公司)	The PRC/ Mainland China	RMB50,000,000	90	10	Development, manufacture and sale of telecommunications related products
Shenzhen Changfei Investment Company, Limited ("Changfei") # (i) (深圳市長飛投資有限公司)	The PRC/ Mainland China	RMB30,000,000	51	—	Investment holding
Shanghai Zhongxing Telecom Equipment Technology & Service Company, Limited # (i) (上海中興通訊技術有限責任公司)	The PRC/ Mainland China	RMB10,000,000	51	—	Development, manufacture and sale of computer software and telecommunications systems equipment

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## 18. INVESTMENTS IN SUBSIDIARIES (continued)

- (i) These subsidiaries are registered as limited companies under the PRC law.
- (ii) These subsidiaries are registered as sino-foreign joint ventures under the PRC law.
- # The English names of these subsidiaries are directly translated from their Chinese names.
- ## The Chinese names of these subsidiaries are directly translated from their registered names.

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

## 19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Unlisted investments, at cost	—	—	—	2,500
Share of net assets	2,255	5,936	—	—
	2,255	5,936	—	2,500

The Group's balances of trade and bills receivable, trade and bills payable and other payable balances with a jointly-controlled entity are disclosed in notes 24, 31 and 32 to the financial statements respectively. The amounts due from/to the jointly-controlled entities are unsecured, interest-free and are repayable on demand.

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

Name	Place of incorporation/ registration	Nominal Value of issued and paid-up capital/ registered capital	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Beijing Zhongxing Telecom Ltd. ("Beijing Zhongxing")# * (北京中興新通訊設備有限公司)	The PRC	RMB5,000,000	50	50	50	Sale of telecommunications computer network and peripheral devices and provision of consultancy and equipment leasing services
Bestel Communications Limited ("Bestel")	Republic of Cyprus	CYP600,000	50	50	50	Provision of telecommunications solutions and related consultancy services

\* The jointly-controlled entity had been winding up in current year.

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

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

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## 19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

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

	2007 RMB'000	2006 RMB'000
Share of the jointly-controlled entities' assets and liabilities		
Current assets	2,303	7,272
Current liabilities	(48)	(1,336)
Net assets	2,255	5,936
Share of the jointly-controlled entities' results		
Revenue	894	633
Other income	384	260
Total revenue	1,278	893
Total expenses	(487)	(1,538)
Tax	(7)	(7)
Gain/(Loss) after tax	784	(652)

## 20. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Unlisted shares, at cost	—	—	91,556	37,088
Share of net assets	134,764	51,257	—	—
	134,764	51,257	91,556	37,088
Provision for impairment	—	—	(9,774)	(9,774)
	134,764	51,257	81,782	27,314

The Group's balances of trade receivables, trade payables and other payables with associates are disclosed in notes 24, 31, 32 to the financial statements, respectively. The amounts due from/to associates are unsecured, interest-free and are repayable on demand.

# NOTES TO FINANCIAL STATEMENTS

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## 20. INVESTMENTS IN ASSOCIATES (continued)

Particulars of the principal associates are as follows:

Name	Place of incorporation/ registration	Nominal Value of issued and paid-up capital/ registered capital	Percentage of ownership interest attributable to the Group	Principal activities
ZTE IC Design Co. Ltd ("ZTEIC Design") #* (深圳市中興集成電路設計有限責任公司)	The PRC	RMB64,000,000	40	Design, research, development and sale of integrated circuits and related electronical products
Shenzhen Weigao Semi-conductor Technology Co., Ltd. #* (深圳市微高半導體科技有限公司)	The PRC	RMB10,000,000	20.4	Design, research, development and sale of semi-conductor products
Wuxi Kaier Technology Co., Ltd.#* (無錫凱爾科技有限公司)	The PRC	RMB10,000,000	20.07	Development, manufacture and sale of camera lenses for mobile phone
Shenzhen Zhongxing Xinyu FPC Company Limited #* (深圳市中興新宇軟電路有限公司)	The PRC	RMB11,000,000	11.58**	Development, manufacture and sale of circuits; import and export of related products and technologies
Shenzhen Smart Electronics Ltd. ("Smart")#* (深圳思碼特電子有限公司)	The PRC	HK\$30,000,000	15.3**	Development, manufacture and sale of telecommunications related components
ZTE Energy Co., Ltd. ("ZTE Energy")#* (中興能源有限公司)	The PRC	RMB1,290,000,000	23.26	Research, development and sales of biological energy and new energy

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

\* Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

\*\* These associates are held through a non wholly-owned subsidiary of the Company which has significant influence over the boards of directors of these associates.

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## 20. INVESTMENTS IN ASSOCIATES (continued)

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

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

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

	<b>2007</b>	2006
	<b>RMB'000</b>	RMB'000
Assets	<b>696,330</b>	395,992
Liabilities	<b>452,377</b>	244,427
Revenues	<b>1,066,403</b>	550,031
Profit	<b>98,539</b>	26,864

## 21. AVAILABLE-FOR-SALE INVESTMENTS

	<b>Group</b>		<b>Company</b>	
	<b>2007</b>	2006	<b>2007</b>	2006
	<b>RMB'000</b>	RMB'000	<b>RMB'000</b>	RMB'000
Unlisted equity investments, at fair value	<b>43,464</b>	43,488	<b>41,464</b>	41,488

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

The fair values of unlisted available-for-sale equity investments have been estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including expected future dividends and proceeds on subsequent disposal of the shares. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated balance sheet, and the related changes in fair values, which are recorded in the consolidated equity, are reasonable, and that they are the most appropriate values at the balance sheet date.

# NOTES TO FINANCIAL STATEMENTS

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## 22. INVENTORIES

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Raw materials	2,475,242	1,240,514	670,292	568,775
Work in progress	697,837	704,550	352,239	295,830
Finished goods	2,190,351	536,091	421,283	314,500
	<b>5,363,430</b>	2,481,155	<b>1,443,814</b>	1,179,105

## 23. TELECOMMUNICATIONS SYSTEM CONTRACTS

	Group		Company	
	2007	2006	2007	2006
Amount due from customers for contract works	8,606,291	5,833,480	8,216,361	5,809,647
Amount due to customers for contract works	(1,597,314)	(996,275)	(472,653)	(991,612)
	<b>7,008,977</b>	4,837,205	<b>7,743,708</b>	4,818,035
Contract costs incurred plus recognised profits less recognised losses to date	22,777,810	21,619,372	19,099,280	19,673,274
Less: Progress billings	(15,768,833)	(16,782,167)	(11,355,572)	(14,855,239)
	<b>7,008,977</b>	4,837,205	<b>7,743,708</b>	4,818,035

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

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Trade and bills receivables	10,573,067	7,917,594	12,015,807	8,167,735
Impairment	(1,236,853)	(556,857)	(1,069,236)	(469,228)
	<b>9,336,214</b>	7,360,737	<b>10,946,571</b>	7,698,507
Current portion	(8,755,207)	(6,988,034)	(10,544,856)	(7,370,341)
Long-term portion	<b>581,007</b>	372,703	<b>401,715</b>	328,166

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

# NOTES TO FINANCIAL STATEMENTS

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

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

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Within 6 months	8,153,438	6,242,121	9,005,575	6,381,674
7 to 12 months	954,568	650,526	980,048	763,464
1 to 2 years	221,696	448,583	682,223	375,495
2 to 3 years	6,512	13,124	129,680	135,215
Over 3 years	—	6,383	149,045	42,659
	<b>9,336,214</b>	7,360,737	<b>10,946,571</b>	7,698,507
Current portion of trade and bills receivables	<b>(8,755,207)</b>	(6,988,034)	<b>(10,544,856)</b>	(7,370,341)
Long-term portion	<b>581,007</b>	372,703	<b>401,715</b>	328,166

The movements in provision for impairment of trade and bills receivables are as follows:

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
At 1 January	556,857	445,246	469,228	411,737
Impairment losses recognised (note 6)	679,996	111,611	600,008	57,491
	<b>1,236,853</b>	556,857	<b>1,069,236</b>	469,228

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB572,321,000 (2006: RMB31,208,000) with a carrying amount of RMB579,236,000 (2006: RMB62,340,000). The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Neither past due nor impaired	4,177,621	3,214,387	3,787,497	3,568,194
Less than 1 year past due	4,313,249	3,335,581	6,008,454	3,446,014
	<b>8,490,870</b>	6,549,968	<b>9,795,951</b>	7,014,208

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

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

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Subsidiaries	—	—	4,037,091	1,813,557
The ultimate holding company	8	2,074	—	142
Jointly-controlled entities	194	8,874	438	8,874
Associates	152	2,869	—	—
Related companies	1,085	678	8,521	49
	<b>1,439</b>	14,495	<b>4,046,050</b>	1,822,622

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

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

At 31 December 2007, the Group factored trade receivables of RMB3,296,377,000 (2006: RMB1,552,054,000) to banks on a without-recourse basis for cash. As the Company and the subsidiary of the Group still retained the risks and rewards associated with the delay in payment by the customers, the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled. Accordingly, bank advances from the factoring of the Group's trade receivables have been accounted for as liabilities in the consolidated balance sheet.

## 26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Prepayments	311,362	115,429	85,165	16,281
Deposits and other receivables	2,478,887	1,378,029	1,483,128	954,967
Due from subsidiaries	—	—	1,349,247	1,069,871
Due from related companies	2,377	3,865	—	—
Dividend receivables	—	—	184,589	817,631
	<b>2,792,626</b>	1,497,323	<b>3,102,129</b>	2,858,750

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

None of the above assets is either past due or impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.



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## 27. LOAN RECEIVABLE

As at 31 December 2007, the Group had a loan receivable from a customer.

A loan receivable of US\$1,777,000 (equivalent to approximately RMB13,466,000) was granted in 2006. The balance is unsecured, interest-free and repayable on demand.

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

## 28. EQUITY INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

The equity investment for the Group and the Company at 31 December 2006 was listed in Hong Kong and was classified as held for trading.

## 29. DERIVATIVE FINANCIAL INSTRUMENTS

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Forward currency contracts				
Assets	123,644	—	123,644	—
Liabilities	7,876	—	—	—

The derivative financial instruments for the Group and the Company at 31 December 2007 represents forward currency contracts, and the carrying amounts of forward currency contracts are the same as their fair values. The above transactions involving derivative financial instruments are with various well known banks in the PRC and Hong Kong with A- or above credit rating.

The Group entered into these contracts to manage its exchange rate exposure which did not meet the criteria for hedge accounting. Change in the fair value amounting to RMB115,566,000 were credited to the income statement during the year.

## 30. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Cash and bank balances	6,234,384	3,168,658	4,603,246	2,018,061
Time deposits	248,786	1,142,402	36,903	939,859
	6,483,170	4,311,060	4,640,149	2,957,920
Less: Pledged bank deposits	(173,421)	(168,997)	(35,784)	(35,201)
Cash and cash equivalents	6,309,749	4,142,063	4,604,365	2,922,719

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
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## 30. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS (continued)

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi amounted to approximately RMB3,496,992,000 (2006: RMB2,072,490,000). The Renminbi is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for other currencies through banks authorised to conduct foreign exchange business.

At 31 December 2007, except for pledged bank deposits of RMB31 million (2006: RMB31 million) were frozen for a litigation proceeding (note 42(b)), all other pledged bank deposits were for banking facilities.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between seven days and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and pledged deposits approximate to their fair values.

## 31. TRADE AND BILLS PAYABLES

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

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Within 6 months	11,564,337	6,816,521	12,385,295	8,858,602
7 to 12 months	167,747	81,489	18,172	704
1 to 2 years	30,528	47,855	1,220	8,256
2 to 3 years	12,151	14,612	5,670	1,272
Over 3 years	27,906	31,188	24,053	23,087
	<b>11,802,669</b>	6,991,665	<b>12,434,410</b>	8,891,921

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

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Subsidiaries	—	—	8,995,512	8,778,447
The ultimate holding company	88,023	147,860	—	—
Related companies	100,979	71,367	4,992	3,724
Associates	30,169	22,108	—	—
A jointly-controlled entity	—	301	—	—
	<b>219,171</b>	241,636	<b>9,000,504</b>	8,782,171

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

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

# NOTES TO FINANCIAL STATEMENTS

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## 32. OTHER PAYABLES AND ACCRUALS

Note	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Receipts in advance	1,491,219	631,231	1,502,276	513,954
Other payables	1,524,172	890,569	1,408,128	476,793
Accruals	1,262,770	948,995	172,078	613,222
Provision for warranties	59,068	256,152	35,300	230,417
Due to the ultimate holding company	313	361	313	361
Due to subsidiaries	—	—	1,678,722	367,862
Due to associates	—	300	—	—
Due to related companies	319	4,964	271	272
	<b>4,337,861</b>	<b>2,732,572</b>	<b>4,797,088</b>	<b>2,202,881</b>

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

## 33. INTEREST-BEARING BANK BORROWINGS

Group	2007			2006		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
<b>Current</b>						
Bank loans — unsecured	4.43-8.95	2008	3,085,596	4.43-6.14	2007	274,116
Bank loans — unsecured	LIBOR+0.4-1.5	2008	1,314,828	LIBOR+0.5	2007	546,610
Bank loans — secured	9.126	2008	3,000	5.02	2007	125,000
			<b>4,403,424</b>			<b>945,726</b>
<b>Non-current</b>						
Bank loans — secured	LIBOR+1.5-2	2009-2015	863,404	LIBOR+1.5	2015	269,737
Bank loans — unsecured	4.77-8.3	2009-2012	893,118	4-4.32	2008-2010	980,000
Bank loans — unsecured	LIBOR+0.4-0.5	2009-2010	328,707	LIBOR+0.4	2008-2009	429,505
			<b>2,085,229</b>			<b>1,679,242</b>
			<b>6,488,653</b>			<b>2,624,968</b>

Company	2007			2006		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
<b>Current</b>						
Bank loans — unsecured	5.5-6.56	2008	2,730,414	4.43-6.14	2007	195,217
Bank loans — unsecured	LIBOR+0.4-0.6	2008	1,095,690	LIBOR+0.5	2007	546,610
Bank loans — unsecured	LIBOR+1.2-1.5	2008	219,138	—	—	—
			<b>4,045,242</b>			<b>741,827</b>
<b>Non-current</b>						
Bank loans — unsecured	4.05-5.75	2009	582,615	4.05-4.32	2008-2010	900,000
Bank loans — unsecured	LIBOR+0.4-0.5	2009	328,707	LIBOR+0.4	2008-2009	429,478
			<b>911,322</b>			<b>1,329,478</b>
			<b>4,956,564</b>			<b>2,071,305</b>

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
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## 33. INTEREST-BEARING BANK BORROWINGS (continued)

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	4,403,424	945,726	4,045,242	741,827
In the second year	1,095,398	1,033,157	692,184	1,017,130
In the third to fifth years, inclusive	529,642	376,348	219,138	312,348
Beyond five years	460,189	269,737	—	—
	<b>6,488,653</b>	2,624,968	<b>4,956,564</b>	2,071,305

Notes:

- (a) Except for bank loans of approximately RMB3,361,434,000 (2006: RMB1,521,042,000) which are denominated in United States dollars, all borrowings are in Renminbi or in Indian Rupee (INR).
- (b) Except for the unsecured bank loans with a carrying amount of RMB3,978,714,000 (2006: RMB1,254,116,000) and a secured bank loan with a carrying amount of RMB3,000,000 (2006: RMB125,000,000), all borrowings of the Group bear interest at floating interest rates.

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

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Pledged bank deposits	173,421	137,997	35,784	4,201
Trade receivables	3,296,377	1,552,054	3,421,377	1,545,800
	<b>3,469,798</b>	1,690,051	<b>3,457,161</b>	1,550,001

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

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Other banks or government	737,143	120,900	400,000	—

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

# NOTES TO FINANCIAL STATEMENTS

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## 34. PROVISION FOR RETIREMENT BENEFITS

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

The latest actuarial valuation of the plan was conducted at 31 December 2007 in accordance with HKAS 19 Employee Benefit by qualified actuaries of Watson Wyatt Hong Kong Limited. The present value of defined benefits obligations and current service costs are determined actuarially based on the projected unit credit method, which involves a number of assumptions and estimates including the rate of inflation, discount rate, employees' turnover ratio as well as mortality rate. Actuarial gains/(losses) are recognised by amortising the amount by which cumulative unrecognised gains/(losses) exceed 10% of the greater of the assets of the plan and the defined benefits obligations over the average expected future working lifetime of the active members of the plan.

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

### Group and Company

	2007 RMB'000	2006 RMB'000
Present value of the obligations	46,749	58,234
Unrecognised actuarial losses	(12,341)	(26,176)
Net liability in the balance sheet	<b>34,408</b>	32,058

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

	2007 RMB'000	2006 RMB'000
Net liability at beginning of year	32,058	30,459
Benefits expenses recognised in the consolidated income statement	3,087	2,787
Pension payments made	(737)	(1,188)
Net liability at end of year	<b>34,408</b>	32,058

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

	2007	2006
(a) Discount rate	4.75%	3.75%

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

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

	2007 RMB'000	2006 RMB'000
Current service cost	—	—
Interest cost on benefits obligations	2,145	1,890
Net actuarial losses recognised in the year	942	897
Benefits expense included in staff costs — note 6	<b>3,087</b>	2,787

# NOTES TO FINANCIAL STATEMENTS

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## 35. OTHER LONG-TERM PAYABLES

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

## 36. PROVISION FOR WARRANTIES

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
At beginning of year	256,152	274,733	230,417	248,998
Additional provisions	61,793	114,724	61,793	114,724
Amounts utilised during the year	(258,877)	(133,305)	(256,910)	(133,305)
At 31 December	59,068	256,152	35,300	230,417

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

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

## 37. DEFERRED TAX

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

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Deferred tax assets:				
At beginning of year	210,923	59,587	194,547	55,113
Deferred tax credited to the income statement during the year (note 10)	84,827	151,336	61,860	139,434
At end of year	295,750	210,923	256,407	194,547
Deferred tax assets:				
Provision against inventories	65,450	53,166	63,830	44,088
Provision for warranties	10,632	34,562	6,354	34,562
Provision for retirement benefits	6,195	4,809	6,195	4,809
Tax losses	71,155	51,141	71,155	51,141
Overseas tax	136,695	87,516	136,695	87,516
Government grants	—	399	—	399
Unrealised profit arising on consolidation	62,083	7,298	—	—
Deferred tax liabilities:				
Intangible assets	(56,460)	(27,968)	(27,822)	(27,968)
Deferred tax assets, net	295,750	210,923	256,407	194,547

At 31 December 2006 and 2007, tax losses of approximately RMB389,043,000 (2006: RMB210,256,000) have not been recognised as deferred tax assets since the possibilities of utilising such amount is considered remote.

# NOTES TO FINANCIAL STATEMENTS

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## 38. SHARE CAPITAL

	2007 RMB'000	2006 RMB'000
Registered, issued, and fully paid		
State-owned A shares of RMB1.00 each	392,080	392,080
Legal person A shares of RMB1.00 each	29,724	29,724
Individual A shares of RMB1.00 each	377,567	377,567
H shares of RMB1.00 each	160,151	160,151
	<b>959,522</b>	959,522

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

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

## 39. SHARE INCENTIVE SCHEME

In 2006, the Company launched a share incentive scheme for providing incentive and reward to 3,435 employees of the Company and its subsidiaries (the "Participants"), including 21 directors and senior management pursuant to which the Company has agreed to grant a total number of 43,182,000 A shares (the "Awarded Shares") for the benefit of the Participants. The Participants have to pay the subscription amounts for the Awarded Shares on the basis of the purchase of 5.2 Awarded Shares at the subscription price for every 10 Awarded Shares granted, out of which the subscription amounts for 3.8 Awarded Shares are funded by the Participants at their own cost and the subscription amounts for the 1.4 Awarded Shares are funded by the conversion of the deferred bonus that the Participants would otherwise have received prior to their agreement not to participate in the distribution of 2006 deferred bonus. The subscription price is RMB30.05 per share, being the closing price of the Company's A shares as quoted on the Shenzhen Stock Exchange on the trading day immediately preceding the date on which the board meeting for reviewing the share incentive scheme was convened for the first time.

According to the share incentive scheme, the Company has set aside a total number of 4,798,000 shares (the "Potential Awarded Shares") for granting to employees (the "Potential Participants") who make significant contributions to the Company and important personnel required by the Company who are identified after the share incentive scheme has been reviewed and passed at the general meeting. The Supervisor Committee will verify the qualifications of the aforesaid employees.

# NOTES TO FINANCIAL STATEMENTS

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## 39. SHARE INCENTIVE SCHEME (continued)

The admission of Directors, Supervisors and Senior Management as the Potential Participants shall be submitted to the general meetings of the Company for its approval. The subscription price for the Potential Awarded Shares will be calculated on the same basis of the Awarded Shares as described above.

The Awarded Shares and the Potential Awarded Shares will be vested to the Participants subject to the terms and conditions attached to the share incentive scheme for a period no shorter than two years from the date of approval, during which the participants shall be restricted from disposing of any of the Awarded Shares. The shares awarded by the Company under the share incentive scheme are considered to be shared-based payments under HKFRS 2.

The fair value of the shares awarded during the year was estimated at approximately RMB297,668,000.

The fair value of shares awarded during the year was estimated as at the date of grant, valued by an independent professional valuer, Towers Perrin, taking into account the expected future dividend yield prior to the vesting of the Awarded Shares of which the participants will not be entitled, and other terms and conditions upon which the shares were awarded.

The conversion of the entitled shares is subjected to the fulfilment of various vesting conditions, including but not limited to the following:

- a) Unqualified opinion has to be obtained on the Company's financial statements during the vesting period.
- b) The company is not subjected to any forms of punishment from the China Securities Regulatory Commission ("CSRC").
- c) The weighted average Return of Equity ("ROE") for the company in the year 2007, 2008 and 2009 is not less than 10%. And the ROE for the years 2007, 2008 and 2009 shall be adopted as the results appraisal conditions to Scheme Participants' application for issuing the Subject Shares in the first, second and third batches, respectively.

## 40. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 219 of the financial statements.

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

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



# NOTES TO FINANCIAL STATEMENTS

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## 40. RESERVES (continued)

### (a) Group (continued)

The share incentive scheme reserve was created for the share incentive scheme launched by the Company to provide incentive and reward to certain employees of the Company and its subsidiaries.

### (b) Company

	Notes	Issued share capital RMB'000	Capital reserve RMB'000	Share incentive scheme reserves RMB'000	Statutory reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 31 December 2005 and 1 January 2006		959,522	5,467,821	—	769,603	52	955,382	239,880	8,392,260
Final 2005 dividend declared		—	—	—	—	—	—	(239,880)	(239,880)
Profit for the year		—	—	—	—	—	831,130	—	831,130
Proposed final 2006 dividend		—	—	—	—	—	(143,928)	143,928	—
Exchange realignments and other income recognised directly in equity		—	—	—	—	(1,545)	—	—	(1,545)
Equity settled share expense		—	—	2,480	—	—	—	—	2,480
At 31 December 2006 and 1 January 2007		959,522	5,467,821	2,480	769,603	(1,493)	1,642,584	143,928	8,984,445
Final 2006 dividend declared		—	—	—	—	—	—	(143,928)	(143,928)
Profit for the year		—	—	—	—	—	20,714	—	20,714
Proposed final 2007 dividend	12	—	—	—	—	—	(239,880)	239,880	—
Exchange realignments and other income recognised directly in equity		—	—	—	—	(2,158)	—	—	(2,158)
Equity settled share expense	39	—	—	297,668	—	—	—	—	297,668
At 31 December 2007		959,522	5,467,821	300,148	769,603	(3,651)	1,423,418	239,880	9,156,741

# NOTES TO FINANCIAL STATEMENTS

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## 41. DISPOSAL OF INTERESTS IN SUBSIDIARIES

	2007 RMB'000	2006 RMB'000
Net assets disposed of:		
Cash and bank balances	—	10,518
Prepayments and other receivables	—	254
Accruals and other payables	—	(78)
Minority interests	—	(100)
	—	10,594

	2007 RMB'000	2006 RMB'000
Satisfied by:		
Cash	—	10,229
Reclassification from interests in subsidiaries to interests in associates	—	365
	—	10,594

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

	2007 RMB'000	2006 RMB'000
Cash consideration	—	10,229
Cash and bank balances disposed of	—	(10,518)
Net outflow of cash and cash equivalents in respect of the disposal of interests in subsidiaries	—	(289)

## 42. CONTINGENT LIABILITIES

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

	2007 RMB'000	2006 RMB'000
Factored trade receivables	—	107,181
Guarantees given to banks in respect of performance bonds	5,093,486	5,200,588
	5,093,486	5,307,769

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
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## 42. CONTINGENT LIABILITIES (continued)

- (b) On 3 November 2005, a Jiangsu Provincial 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 interest and compensating losses of approximately RMB71 million in aggregate. As at the date of approval of these financial statements, no decision had been made in the court proceedings.

Meanwhile, RMB31 million of the Group's cash had been temporary frozen and the real estate title certificate for certain of the Group's buildings with net book value of approximately RMB117.2 million were held by the court as security for such litigation. In the opinion of the directors, based on legal advice from the Company's lawyer engaged for this action, the subsidiary of the Group and the Company have valid defences against such claims and any resulting liabilities would not have any material adverse impact on the Group's financial position. Therefore, no provision in respect of such claims was made in the financial statements.

- (c) 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 US\$36,450,000 (equivalent to approximately RMB266.3 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 for 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 had been made in the financial statements.

- (d) In August 2006, a foreign customer commenced an arbitration for a claim against the Company, for Rs.762,982,000 (equivalent to approximately RMB90,871,000), in respect of the Company's failure to honour a contract. While in return, the Company has launched a counter claim against the foreign customer for failure in honouring the contract. An arbitration decision has been awarded against the Company in February 2008 and Rs.328,040,000 (equivalent to approximately RMB39,070,000) have to be paid by the Company. The Company has set aside a provision for such amount at the balance sheet date and prepared to launch an objection for the decision awarded. As at the approval date of these financial statements, no compensation has been paid regarding the arbitration. In the opinion of the directors, based on legal advice of the Company's lawyer engaged for this action, ultimate outcome of the claim is not yet determinable given the early stage of the proceedings. Accordingly, no further provision in respect of such claims was made in the financial statements.

## 43. FINANCIAL GUARANTEE CONTRACT

The Group has provided a financial guarantee for an independent customer with a maximum amount of RMB50 million included corresponding interest which will expire in September 2018.

In accordance with HKAS 39, such financial guarantee contract is accounted for as a financial liability and subsequently measured at the higher of the amount determined in accordance with HKAS 37 and HKAS 18.

## 44. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in note 33 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

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## 45. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group is entitled to share a portion of the profit generated from the telecommunications network as disclosed in note 15 to the financial statements. During the year, approximately RMB24 million (2006: RMB28 million) of operating lease rental income had been recognised under this arrangement.

### (b) As lessee

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

At 31 December 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2007 RMB'000	2006 RMB'000
Within one year	183,471	118,347
In the second to fifth years, inclusive	207,199	81,470
After five years	2,394	1,554
	<b>393,064</b>	201,371

## 46. COMMITMENTS

In addition to the operating lease commitments detailed in note 45 above, the Group had the following commitments at the balance sheet date:

### Capital commitments

	2007 RMB'000	2006 RMB'000
Land and buildings:		
Contracted, but not provided for	582,263	795,991
Investments in associates:		
Contracted, but not provided for	255,234	80,331

# NOTES TO FINANCIAL STATEMENTS

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## 47. RELATED PARTY TRANSACTIONS

### (i) Transactions with related parties

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

	Notes	2007 RMB'000	2006 RMB'000
<b>The ultimate holding company:</b>			
Purchase of raw materials	(a)	492,233	359,439
Sale of finished goods	(b)	—	3,682
Rental expense	(e)	19,018	—
<b>Shareholders of the ultimate holding company:</b>			
Purchase of raw materials	(a)	158,294	145,991
Sale of finished goods	(d)	8,204	7,830
<b>Jointly-controlled entities:</b>			
Purchase of raw materials	(a)	1,503	—
Sale of finished goods	(b)	7,039	31,947
<b>Associates:</b>			
Purchase of raw materials	(a)	159,204	105,858
Sale of finished goods	(b)	5,223	18,101
<b>Entities controlled by key management personnel of the Group:</b>			
Purchase of raw materials	(a)	240,901	217
Sale of finished goods	(b)	30,169	—
Rental expense	(f)	21,418	—
<b>Shareholder of a subsidiary:</b>			
Corporate guarantee	(c)	80,000	80,000
<b>Fellow subsidiaries:</b>			
Purchase of raw materials	(a)	213,882	107,379
Sale of finished goods	(b)	339	1,218

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

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
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## 47. RELATED PARTY TRANSACTIONS (continued)

### (I) Transactions with related parties (continued)

Notes:

- (a) The purchases of raw materials were made in accordance with published prices and conditions similar to those offered by the suppliers to their major customers.
- (b) The sales of finished goods were made in accordance with published prices and conditions offered to major customers of the Group.
- (c) The guarantee in respect of bank borrowings was provided by related parties at nil consideration.
- (d) The purchase and sale prices of the goods were determined at rates mutually agreed between the Group and the related parties.
- (e) The rental expense was charged at rates ranging from RMB40 to RMB42.5 per square metre.
- (f) The rental expense was charged at rates ranging from RMB115 per square metre.

### (II) Outstanding balances with related parties:

- (i) Details of the Group's trade balances with the ultimate holding company, jointly-controlled entities, associates and other related parties as at balance sheet date are disclosed in notes 24 and 31 to the financial statements.
- (ii) Details of the Group's balances of receivables and payables which are not trading in nature with the ultimate holding company, jointly-controlled entities, associates and other related parties as at balance sheet date are disclosed in notes 26 and 32 to the financial statements.

### (III) Compensation of key management personnel of the Group

	2007 RMB'000	2006 RMB'000
Short-term employee benefits	10,022	4,992
Post-employment benefits	159	74
Total compensation paid to key management personnel	10,181	5,066

Included in the transactions with the Group's ultimate holding company and the fellow subsidiaries, certain transactions amounting to approximately RMB746 million constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

# NOTES TO FINANCIAL STATEMENTS

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## 48. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2007	Group			
	Financial assets at fair value through profit or loss – held for trading RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Financial assets				
Available-for-sale investments	–	–	43,464	43,464
Trade and bills receivables	–	9,336,214	–	9,336,214
Factored trade receivables	–	3,296,377	–	3,296,377
Financial assets included in prepayments, deposits and other receivables	–	2,481,264	–	2,481,264
Derivative financial instruments	123,644	–	–	123,644
Loan receivable	–	13,466	–	13,466
Pledged bank deposits	–	173,421	–	173,421
Cash and cash equivalents	–	6,309,749	–	6,309,749
	123,644	21,610,491	43,464	21,777,599

2007	Group			
	Financial liabilities at fair value through profit or loss – held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Other Financial Liabilities RMB'000	Total RMB'000
Financial liabilities				
Trade and bills payables	–	11,802,669	–	11,802,669
Bank advances on factored trade receivables	–	3,296,377	–	3,296,377
Financial liabilities included in other payables and accruals	–	3,016,023	–	3,016,023
Derivative financial instruments	7,876	–	–	7,876
Interest-bearing bank borrowings	–	6,488,653	–	6,488,653
Financial guarantee contract	–	–	3,689	3,689
	7,876	24,603,722	3,689	24,615,287

# NOTES TO FINANCIAL STATEMENTS

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## 48. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2006	Group			
	Financial assets at fair value through profit or loss — held for trading RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Financial assets				
Available-for-sale investments	—	—	43,488	43,488
Trade and bills receivables	—	7,360,737	—	7,360,737
Factored trade receivables	—	1,552,054	—	1,552,054
Financial assets included in prepayments, deposits and other receivables	—	1,381,894	—	1,381,894
Equity investments at fair value through profit or loss	33,288	—	—	33,288
Loan receivable	—	22,026	—	22,026
Pledged bank deposits	—	168,997	—	168,997
Cash and cash equivalents	—	4,142,063	—	4,142,063
	33,288	14,627,771	43,488	14,704,547

Financial liabilities	Financial liabilities at amortised cost RMB'000	Other financial liabilities RMB'000	Total RMB'000
	Trade and bills payables	6,991,665	—
Bank advances on factored trade receivables	1,552,054	—	1,552,054
Financial liabilities included in other payables and accruals	1,527,425	—	1,527,425
Interest-bearing bank borrowings	2,624,968	—	2,624,968
Financial guarantee contract	—	3,689	3,689
	12,696,112	3,689	12,699,801



# NOTES TO FINANCIAL STATEMENTS

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## 48. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial assets	Company						
	2007				2006		
	Financial assets at fair value through profit or loss – held for trading RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	–	–	41,464	41,464	–	41,488	41,488
Trade and bills receivables	–	10,946,571	–	10,946,571	7,698,507	–	7,698,507
Financial assets included in prepayments, deposits and other receivables	–	3,016,964	–	3,016,964	2,842,469	–	2,842,469
Derivative financial instruments	123,644	–	–	123,644	–	–	–
Pledged bank deposits	–	35,784	–	35,784	38,201	–	38,201
Cash and cash equivalents	–	4,604,365	–	4,604,365	2,922,719	–	2,922,719
	123,644	18,603,684	41,464	18,768,792	13,501,896	41,488	13,543,384

Financial liabilities	2007			2006		
	Other Financial Liabilities RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000	Other Financial Liabilities RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
	Trade and bills payable	–	12,434,410	12,434,410	–	8,891,921
Financial assets included in other payables and accruals	–	4,589,710	4,589,710	–	1,359,242	1,359,242
Interest-bearing bank borrowings	–	4,956,564	4,956,564	–	2,071,305	2,071,305
Financial guarantee contract	3,689	–	3,689	3,689	–	3,689
	3,689	21,980,684	21,984,373	3,689	12,322,468	12,326,157

# NOTES TO FINANCIAL STATEMENTS

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## 49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

### Interest rate risk

At 31 December 2007, the bank loans of the Group and the Company including fixed and variable rate debts. The Group and the Company have no significant concentration of interest rate risk.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. At 31 December 2007, approximately 61% (2006: 53%) of the Group's interest-bearing borrowings bore interest at fixed rates.

All of the interest-bearing borrowings with floating interest rate are in US\$. If there would be a general increase/decrease in the interest rate of bank and other borrowings with floating interest rates by 25 basis points, with all other variable held constant, the profit before tax and owners' equity for the Group would have been decreased/increased by approximately RMB2.9 million and RMB1.7 million for the year ended 31 December 2007 and 2006 respectively.

### Foreign currency risk

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

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the US\$ exchange rate, with all other variables held constant, of the Group's profit before tax (due to change in the fair value of monetary assets and liabilities) and the Group's owners' equity.

	Increase/ Changed in US\$ rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in owners' equity RMB'000
<b>2007</b>			
If RMB weakens against USD	+5%	40,344	40,344
If RMB strengthens against USD	-5%	(40,344)	(40,344)
<b>2006</b>			
If RMB weakens against USD	+5%	111,018	111,018
If RMB strengthens against USD	-5%	(111,018)	(111,018)

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
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## 49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets, amounts due from associates, jointly-controlled entities and related companies, other receivables and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Group is also exposed to credit risk through the granting of financial guarantees.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by counterparty by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 24 to the financial statements.

### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans. In addition, banking facilities have been put in place for contingency purpose. Except for the non-current portion of interest bearing bank borrowing, all borrowings mature in less than one year.

### Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

# NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)  
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## 49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Capital management (continued)

The Group monitors capital using a gearing ratio, which is interest-bearing bank borrowings divided by the sum of total equity and interest-bearing bank borrowings. The gearing ratios as at the balance sheets dates were as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Interest-bearing bank borrowings	6,488,653	2,624,968
Total equity	12,888,408	11,325,837
Total equity and interest-bearing bank borrowings	19,377,061	13,950,805
Gearing ratio	33%	19%

## 50. POST BALANCE SHEET EVENT

- (i) On 30 January 2008, the Company issued 40,000,000 bonds with warrants with a nominal value of RMB100 each, amounting to RMB4 billion in total. The bonds with warrants are listed on the Shenzhen Stock Exchange. The bonds with warrants are guaranteed by China Development Bank, and have a 5-year life from the date of issuance. The subscribers of each bond have been entitled to receive 1.63 warrants at nil consideration, which in aggregate, 65,200,000 warrants have been issued. The warrants have a life of 24 months from the date of listing and every two warrants can be converted into 1 A share at a original conversion price of RMB78.13. The holders of the warrants are entitled to exercise the warrants 10 trading days prior to the 24th month of the listing of the warrants ("Exercise Period"). Exercise in full of the warrants would have resulted in the issue of 20,000,000 A shares. The bonds with warrants are interest bearing at a rate of 0.8% per annum payable in arrears on 30 January each year.
- (ii) The Board proposes to increase the registered capital of the Company by capitalising the capital reserve fund of the Company, pursuant to which Bonus Shares will be allotted and issued to the Shareholders on the basis of 4 Bonus Shares for every 10 Shares held by the Shareholders on the Record Date. The registered capital of the Company will increase from RMB959,521,650 to RMB1,343,330,310 upon completion of the Bonus Issue. Based on a total of 959,521,650 Shares in issue in the Record Date, 383,808,660 Bonus Shares will be issued by the Company, of which 64,060,416 Shares are Bonus H Shares and 319,748,244 are Bonus A Shares.

The Bonus Issue and the increase in the Company's registered capital are subject to the Shareholders' approval at the coming Annual General Meeting.

## 51. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

## 52. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 March 2008.

## DOCUMENTS AVAILABLE FOR INSPECTION

1. Text of the 2007 annual report signed by the Chairman of the Board of Directors;
2. Original copies of the Group's audited financial reports and consolidated financial statements for the year ended 31 December 2007 prepared in accordance with the PRC GAAP and HKFRSs duly signed by the Company's legal representative, Chief Financial Officer and Head of Finance Division;
3. Original copy of the auditors' report with stamped by the certified public accountants and duly signed and sealed by the registered accountants;
4. Original copies of all of the Company's released documents and announcements published in China Securities Journal, Securities Times and Shanghai Securities News during the reporting period;
5. Articles of Association.

By order of the Board



**Hou Weigui**  
*Chairman*

20 March 2008