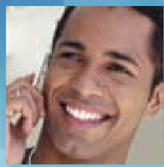
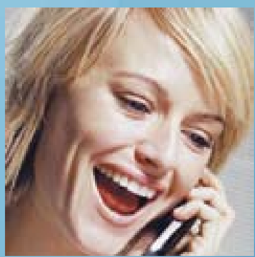
ZTE中兴

中兴通讯股份有限公司

ZTE CORPORATION

stock code: 000063.SZ
763.HK





2008 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 twenty-second 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 2008 were prepared in accordance with PRC Accounting Standards for Business Enterprises ("PRC ASBEs") 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.

CONTENTS

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".

"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.
"Articles of Association"	The Articles of Association of ZTE Corporation.
"Group"	One or more of ZTE and its subsidiaries.
"Board of Directors"	The board of directors of the Company.
"Supervisors"	Members of the Supervisory Committee of the Company.
"China" or "PRC"	People's Republic of China.
"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.
"China Mobile"	China Mobile Communications Corporation and its subsidiaries.
"China Telecom"	China Telecommunications Corporation and its subsidiaries.
"China Unicom"	China United Network Communications Corporation Limited and its subsidiaries.
"CSRC"	China Securities Regulatory Commission.
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited.
"Shenzhen Stock Exchange"	The Shenzhen Stock Exchange of China.
"Shenzhen CSRC"	The CSRC Shenzhen Bureau.
"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).
"HKFRSs"	Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKAS") and Interpretations.
"PRC ASBEs"	Generally accepted accounting principles in China.
"CASC"	China Aerospace Science and Technology Corporation and its subsidiaries.
"CASIC"	CASIC (Group) Company, Limited and its subsidiaries.
"Xi'an Microelectronics"	Xi'an Microelectronics Technology Research Institute.
"Zhongxing WXT"	Shenzhen Zhongxing WXT Equipment Company, Ltd.
"Zhongxingxin"	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited.

"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.
"ZTE Kangxun"	ZTE Kangxun Telecom Company Limited.
"ZTE Software"	Shenzhen ZTE Software Company, Limited.
"ZTE HK"	ZTE (H.K.) Limited.
"Changfei"	Shenzhen Changfei Investment Company, Limited.
"Hongde"	Shenzhen Hongde Battery Company, Limited.
"Kangquan"	Shenzhen Kangquan Electromechanical Company, Limited.
"Lead"	Shenzhen Lead Communications Company, Limited.
"Ruide"	Shenzhen Ruide Electronic Industrial 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.
FTTX	Abbreviation of “Fiber-to-the-X”, a collective name given to various methods for fiber access. FTTX commonly includes: FTTN (Fiber-to-the-Node), FTTC (Fiber-to-the-Curb), FTTB (Fiber-to-the-Building), FTTH (Fiber-to-the-Home).

COMPANY PROFILE

The Company is listed on the Shenzhen Stock Exchange and the Main Board of the Hong Kong Stock Exchange. The Group is a listed integrated communications manufacturer and one of the providers of global telecommunications solutions providers.

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, operating 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 carriers' networks, 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. With respect to the global telecommunications market, the Group has sold its products to over 500 customers in more than 140 countries and regions around the world, including telecommunications service providers in United Kingdom, Italy, India, Indonesia, Egypt and Hong Kong, and continues to gain access into developed countries. The Group has established long-term business cooperation with various global telecommunications service providers including Hutchison Telecom, France Telecom, British Telecom, Vodafone and Telefonica and Canadian Telus.

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/Company Secretary	Feng Jianxiong
	Securities affairs representative	Li Fei
	Correspondence Address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China
	Telephone	+86 755 26770282
	Facsimile	+86 755 26770286
	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.hkex.com.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 Abbreviated name of stock: 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 Abbreviated name of stock: 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 33/F, Edinburgh Tower, The Landmark, 15 Queen's Road, 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 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 past year of 2008 was an extraordinary year for most businesses and industries, which were dealt with a heavy blow by the financial crisis. Nevertheless, the Group was able secure stable development in its business segments against all odds in 2008, delivering satisfactory results in all business indicators.

OPERATING RESULTS

The Group's operating revenue for 2008 amounted to RMB44.293 billion, representing a year-on-year growth of 27.36%, while net profit grew 32.58% to RMB1,660 million. Basic earnings per share amounted to RMB1.24. The Group's international business sustained stable development in 2008 as operating revenue from international business grew 33.53% to RMB26.827 billion to account for 60.57% of the Group's overall operating revenue.

BUSINESS DEVELOPMENT

Against the backdrop of the global economic crisis and intense competition, the Group succeeded in achieving a rationalised overall structure, breakthroughs in its strategic distribution of product mix and significant improvements in overall customer quality in 2008. The Company made new headways while continuing to enhance its performance in respect of mainstream products, mainstream markets and mainstream carriers, which represented the foundations for its sustainable development.

In 2008, the Company reported significant breakthrough and growth in mainstream products such as GSM, WCDMA, FTTX and optical transmission. In the home market, the Company rolled out a favourable framework for the forthcoming 3G construction by actively participating in the 3G project tenders of the three leading domestic telecommunications carriers. Internationally, important breakthroughs have been made in regional strategic markets while our share in the market for multi-national carriers has been further substantiated, paving the way for setting new benchmarks in 2009.

In 2008, the Group continued to improve its core competitive strengths by enhancing management system reforms and the building of research and development teams. On the basis of the completed systematisation reforms, the Company further advanced full-scale reforms in the project management mechanism and the speed research and development management mechanism in 2008. We aim for significant improvements in our market and research and development management standards within the next 2 to 3 years to give a major boost to our core competitive strengths.

CORPORATE GOVERNANCE

Our corporate governance structure was further improved during the year. On 17 July 2008, the "Explanatory Statement on Rectification Matters set out in the Corporate Governance Rectification Report" was considered and approved at the fifteenth meeting of the Fourth Session of the Board of Directors of the Company, whereby it was noted that the Company had diligently investigated issues and inadequacies in the corporate governance structure in a comprehensive, objective and pragmatic manner and had carried out rectifications in respect of the rectification matters set out in its rectification plan in accordance with the requirements set out in CSRC Circular No. 27 (2008) and the "Notice on Work relating to the Further Advancement of Corporate Governance Initiatives" issued by Shenzhen CSRC.

CORPORATE SOCIAL RESPONSIBILITY

In 2008, the Group conducted research and training on corporate social responsibility standards and developed a corporate social responsibility indicator system and an initial data collection channel for corporate social responsibility KPI indicators. We also won wide acclaim for our ongoing improvements in labour relations, supply-chain management and customer services. In the aftermath of the devastating earthquake in Wenchuan, the Group offered proactive support by assisting the rebuilding of communications facilities in the affected area and making monetary and other donations. We set up a special fund for the aid of children in the affected area, rebuilding of schools and education in impoverished regions. The Group was awarded "The First Pengcheng Charity Awards: Special Award for Earthquake Disaster Relief" for its outstanding contributions to the post-earthquake disaster relief efforts.

DIVIDEND DISTRIBUTION

In view of the Group's positive operating results in 2008 and taking into account the Group's overall financial conditions and cash flow, the dividend distribution proposal for 2008 recommended by the Board of Directors will be as follows: the creation of 3 shares for every 10 shares and a cash dividend of RMB3 for every 10 shares (including tax). The Group remains committed to long-term development, seeking to grow from strength to strength to optimise shareholders' value.

FUTURE PROSPECTS

With telecommunications carriers advancing their efforts in 3G, one-stop services, value-added services, network transformation and network optimisation, the Group is anticipating sound growth opportunities in the domestic market in the coming year. Internationally, the Group's primary task will be seeking key breakthroughs in developed countries and prudent business expansion in developing countries, as the impact of the financial crisis lingers on.

The Group's focus in 2009 will be as follows:

In the new year, the Group will strive to attain industry leadership in the areas of carriers' networks and terminals, seeking to increase businesses with high-end mainstream carriers.

The Group will consolidate and build on its initial success in 3G three-mode wireless network in the domestic market, aiming higher in terms of overall market share and industry position. In the international market, we will continue to achieve breakthroughs in developed countries, assure our share in important emerging markets and identify further opportunities in our existing markets.

The Company and the Board of Directors is committed to pursuing stable business development and generating positive rewards for the shareholders and the society by persisting in the implementation of differentiation and cost leadership strategies and intensifying project operations on the back of its cost advantage, technological edge and consolidated financial strengths.

Hou Weigui
Chairman

Shenzhen, PRC
20 March 2009

MAJOR EVENTS

JANUARY 2008

ZTE issued bonds cum warrants with a total value of RMB4 billion.

APRIL 2008

ZTE entered into a global cooperation framework agreement on system equipment with Vodafone, the world's largest multi-national carrier in terms of geographic market coverage and second largest in terms of user base.

APRIL 2008

ZTE entered into a strategic cooperation agreement with ORACLE, world-renowned software developer.

JUNE 2008

ZTE was named among "China's Most Respectable Enterprises" for four years in a row.

AUGUST 2008

ZTE undertook full TD-SCDMA construction in Beijing as the capital city hosted the Olympic Games, building TD-SCDMA networks for 31 Olympics stadia, 34 non-Olympics venues and 118 hotels under accommodation agreements. We also provided communications security for the five Olympic cities of Beijing, Tianjin, Shenyang, Qinhuangdao and Qingdao.

SEPTEMBER 2008

The 100,000,000th handset manufactured by ZTE came off the production line to make the Company the sixth largest handset manufacturer in the world.

OCTOBER 2008

At the first charity conference of Shenzhen, ZTE was awarded "The First Pengcheng Charity Awards: Special Award for Earthquake Disaster Relief" with total donations of RMB13.83 million.

NOVEMBER 2008

ZTE entered into a series of contracts in relation to the purchase of equipment for China Telecom's Mobile Network Construction (Phase 1, 2008).

ACCOUNTING AND FINANCIAL DATA HIGHLIGHTS

(I) MAJOR FINANCIAL DATA OF THE GROUP FOR THE YEAR PREPARED IN ACCORDANCE WITH PRC ASBEs

Unit: RMB in millions

Items	Amount
Operating profit	1,245.4
Gross profit	2,262.5
Net profit attributable to shareholders of the listed company	1,660.2
Net profit after extraordinary items attributable to shareholders of the listed company	1,548.1
Net cash flow from operating activities	3,647.9

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

Unit: RMB in millions

Extraordinary items	Amount
Government grants accounted for in current profit and loss [Note]	194.9
Non-operating income	18.1
Less: Gains/losses arising from the disposal of non-current assets	37.2
Non-operating expenses	43.9
Effect on income tax	19.8
Total	112.1

Note: With the exception of government grants which were closely related to the ordinary business operations of the Company and received in fixed amounts on a continuous basis in accordance with national policies and designated standards.

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

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

Unit: RMB in millions

Items	For the year ended 31 December 2008 (current year)	For the year ended 31 December 2007 (previous year)	Year-on-year change	For the year ended 31 December 2006 Before adjustment	After adjustment[Note 1]
Operating revenue	**44,293.4**	34,777.2	**27.36%**	23,214.6	23,214.6
Total profit	**2,262.5**	1,727.7	**30.95%**	1,069.6	1,030.7
Net profit attributable to shareholders of the listed company	**1,660.2**	1,252.2	**32.58%**	807.4	767.0
Net profit after extraordinary items attributable to shareholders of the listed company	**1,548.1**	1,245.8	**24.26%**	753.9	713.4
Net cash flow from operating activities	**3,647.9**	88.4	**4,026.58%**	(1,555.0)	(1,548.1)

Items	As at 31 December 2008 (end of current year)	As at 31 December 2007 (end of previous year)	Year-on-year change	As at 31 December 2006 Before adjustment	After adjustment
Total assets	**50,865.9**	39,229.6[Note 2]	**29.66%**	25,916.9	25,760.7
Shareholders' equity attributable to shareholders of the listed company	**14,249.5**	12,137.2	**17.40%**	10,678.9	10,763.9

Note 1: The adjusted figures for 2006 are comparative figures restated in compliance with presentation requirements on the first adoption of ASBEs for 2007.

Note 2: Total assets as at the end of 2007 have been restated including the separate presentation of deferred income tax assets and deferred income tax liabilities and the reclassification and adjustment of inventory and amount receivable for contract works.

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

Items	For the year ended 31 December 2008 (current year)	For the year ended 31 December 2007 (previous year)	Year-on-year change	For the year ended 31 December 2006 Before adjustment	After adjustment
Basic earnings per share (RMB)	**1.24**	0.93 Note 2	**33.33%**	0.60 Note 2	0.57 Note 2
Diluted earnings per share (RMB)	**1.20**	0.92 Note 2	**30.43%**	0.60 Note 2	0.57 Note 2
Basic earnings per share after extraordinary items (RMB)	**1.15**	0.93 Note 2	**23.66%**	0.56 Note 2	0.53 Note 2
Fully diluted return on net assets (%)	**11.65**	10.32	**Increase by 1.33 percentage points**	7.56	7.13
Weighted average return on net assets (%)	**12.36**	10.94	**Increase by 1.42 percentage points**	7.76	7.30
Fully diluted return on net assets after extraordinary items (%)	**10.86**	10.26	**Increase by 0.60 percentage points**	7.06	6.63
Weighted average return on net assets after extraordinary items (%)	**11.52**	10.88	**Increase by 0.64 percentage points**	7.24	6.79
Net cash flow from operating activities per share (RMB)	**2.72**	0.07 Note 2	**3,785.71%**	(1.16) Note 2	(1.15) Note 2

Items	As at 31 December 2008 (end of current year)	As at 31 December 2007 (end of previous year)	Year-on-year change	As at 31 December 2006 Before adjustment	After adjustment
Net asset per share attributable to shareholders of the listed company (RMB)	**10.61**	9.04 Note 2	**17.37%**	7.95 Note 2	8.01 Note 2

Note 1: In accordance with PRC ASBEs, the amount of diluted earnings per share is arrived at by dividing the net interests attributable to the listed company by the sum of 1,343,330,310 shares (the effective total share capital of the Company) and 55% of the 67,172,000 potentially dilutive ordinary shares representing Subject Shares quota granted under the Phase I Share Incentive Scheme of the Company).

Note 2: The above figures have been restated to reflect the change of total share capital from 959,521,650 shares to 1,343,330,310 shares as a result of the implementation of the Company's profit distribution for 2007.

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

Unit: RMB in millions

	For the year ended 31 December				
	2008	**2007**	**2006**	**2005**	**2004**
Results					
Revenue	**44,293.4**	34,777.2	23,214.6	21,740.7	21,261.4
Cost of sales	**(29,911.5)**	(23,415.0)	(15,365.9)	(14,101.7)	(13,813.5)
Gross profit	**14,381.9**	11,362.2	7,848.7	7,639.0	7,447.9
Other income and revenue	**1,295.7**	1,028.0	724.7	516.9	492.8
Research and development costs	**(3,994.1)**	(3,210.4)	(2,832.7)	(1,959.5)	(2,265.2)
Selling and distribution costs	**(5,401.0)**	(4,531.5)	(3,274.7)	(3,186.4)	(2,799.6)
Administrative expenses	**(2,190.0)**	(1,718.2)	(1,097.6)	(1,095.4)	(981.4)
Other expenses	**(1,159.7)**	(898.2)	(191.5)	(128.6)	(162.4)
Profit from operating activities	**2,932.8**	2,031.9	1,176.9	1,786.0	1,732.1
Finance costs	**(690.2)**	(328.3)	(153.7)	(175.9)	(140.4)
Share of profit and loss of jointly controlled entities and associates	**19.9**	24.1	7.5	(4.2)	3.1
Profit before tax	**2,262.5**	1,727.7	1,030.7	1,605.9	1,594.8
Tax	**(350.6)**	(276.2)	(127.1)	(179.9)	(115.0)
Profit before minority interests	**1,911.9**	1,451.5	903.6	1,426.0	1,479.8
Attributable to:					
Minority interests	**(251.7)**	(199.3)	(136.6)	(138.3)	(207.3)
Attributable to:					
Shareholders of parent company	**1,660.2**	1,252.2	767.0	1,287.7	1,272.5

Unit: RMB in millions

	As at 31 December				
	2008	**2007**	**2006**	**2005**	**2004**
Assets and liabilities					
Total assets	**52,228.8**	41,034.4[Note]	26,787.2	22,464.0	21,007.8
Total liabilities	**37,045.3**	28,146.0[Note]	15,461.4	11,742.8	11,312.2
Minority interests	**934.0**	751.2	561.9	470.7	478.4
Shareholders' equity attributable to the parent company	**14,249.5**	12,137.2	10,763.9	10,250.5	9,217.2

Note: Total assets and total liabilities as at the end of 2007 have been restated including the separate presentation of deferred income tax assets and deferred income tax liabilities and the reclassification and adjustment of inventory and amount receivable for contract works

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

Items	2008	2007	2006	2005	2004
Basic earnings per share (RMB/share)	**1.24**	0.93 Note1	0.57 Note1	0.96 Note1	0.95 Note1
Net asset per share (RMB/share)	**10.61**	9.04 Note1	8.01 Note1	7.63 Note1	6.86 Note1
Return on net assets	**11.65%**	10.32%	7.13%	12.56%	13.81%

Note 1: The above figures have been restated to reflect the change of total share capital from 959,521,650 shares to 1,343,330,310 shares as a result of the implementation of the Company's profit distribution for 2007.

Note 2: The above financial indicators represent figures excluding minority interests.

(V) THE AMOUNTS OF NET PROFIT AND NET ASSETS OF THE GROUP FOR THE YEAR ENDED AND AS AT 31 DECEMBER 2008 CALCULATED IN ACCORDANCE WITH PRC ASBEs 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[1]	Sub-total	Number of shares	Percentage (%)
I. Shares subject to lock-up	311,954,732	32.51	–	–	105,596,213	(415,857,031)	(310,260,818)	1,693,914	0.13
1. State-owned shares	–	–	–	–	–	–	–	–	–
2. State-owned legal person shares	310,982,741	32.41	–	–	105,202,663	(416,185,404)	(310,982,741)	–	–
3. Other domestic shares	971,991	0.10	–	–	393,550	328,373	721,923	1,693,914	0.13
Comprising: Domestic legal person shares	–	–	–	–	–	–	–	–	–
Domestic natural person shares	971,991	0.10	–	–	393,550	328,373	721,923	1,693,914[Note 1]	0.13
4. Foreign shares	–	–	–	–	–	–	–	–	–
Comprising: Foreign legal person shares	–	–	–	–	–	–	–	–	–
Foreign natural person shares	–	–	–	–	–	–	–	–	–
II. Shares not subject to lock-up	647,566,918	67.49	–	–	278,212,447	415,857,031	694,069,478	1,341,636,396	99.87
1. RMB ordinary shares	487,415,878	50.80	–	–	214,152,031	415,857,031	630,009,062	1,117,424,940	83.18
2. Domestic-listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas-listed foreign shares (H shares)	160,151,040	16.69	–	–	64,060,416	–	64,060,416	224,211,456	16.69
4. Others	–	–	–	–	–	–	–	–	–
III. Total number of shares	959,521,650	100	–	–	383,808,660	–	383,808,660	1,343,330,310	100

Note 1: As at the end of the year, 1,635,852 shares held by domestic natural persons were senior management shares, accounting for 0.1218% of the total share capital, while 58,062 shares were held by other natural persons, accounting for 0.0043% of the total share capital.

Note 2: 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, the implementation of the profit distribution and capitalisation from capital reserves of the Company for 2007 and the purchase of circulating A shares of the Company in the secondary market by certain Directors and senior management of the Company using private funds during 28 to 29 October 2008. Details of the change are set out in "I. 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

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 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	435,375,837	124,393,096	0	Shares subject to lock-up issued under share reform	Note 1 and Note 2
Hou Weigui	164,700	0	215,900	380,600	Senior management shares subject to lock-up	
Yin Yimin	91,260	0	111,572	202,832	Senior management shares subject to lock-up	
Shi Lirong	71,820	0	43,728	115,548	Senior management shares subject to lock-up	
He Shiyou	68,255	0	42,302	110,557	Senior management shares subject to lock-up	
Zhang Taifeng	91,260	0	36,504	127,764	Senior management shares subject to lock-up	
Qu Deqian	7,515	0	3,006	10,521	Senior management shares subject to lock-up	
Wei Zaisheng	71,820	0	52,353	124,173	Senior management shares subject to lock-up	
Xie Daxiong	33,629	0	28,452	62,081	Senior management shares subject to lock-up	
Tian Wenguo	18,225	0	911	19,136	Senior management shares subject to lock-up	
Fan Qingfeng	0	5,000	20,000	15,000	Senior management shares subject to lock-up	
Chen Jie	70,875	0	35,850	106,725	Senior management shares subject to lock-up	
Fang Rong	31,039	0	23,666	54,705	Senior management shares subject to lock-up	Unlocked in accordance with relevant PRC regulations.
Zhao Xianming	0	3,750	15,000	11,250	Senior management shares subject to lock-up	
Pang Shengqing	0	3,825	15,300	11,475	Senior management shares subject to lock-up	
Zeng Xuezhong	0	7,500	30,000	22,500	Senior management shares subject to lock-up	
Xu Huijun	0	3,750	15,000	11,250	Senior management shares subject to lock-up	
Ye Weimin	25,353	0	17,641	42,994	Senior management shares subject to lock-up	
Ni Qin	59,130	0	38,652	97,782	Senior management shares subject to lock-up	
Wu Zengqi	0	5,000	20,000	15,000	Senior management shares subject to lock-up	
Feng Jianxiong	0	2,500	10,000	7,500	Senior management shares subject to lock-up	
Former senior management shareholders	167,110	111,048	88,459	144,521	Shares subject to lock-up held by former senior management	
Total	**311,954,732**	**435,518,210**	**125,257,392**	**1,693,914**	–	–

Note 1: The following undertakings relating to the "Revised Share Reform Plan of ZTE Corporation" as set out in the announcement published on the designated information disclosure website on 23 November 2005 were made by Zhongxingxin, the largest shareholder of the Company:

Statutory undertaking: 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 on the Shenzhen Stock Exchange 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. Zhongxingxin had fulfilled this statutory undertaking.

Special undertaking: Where Zhongxingxin sells its shares by way of trading on the Shenzhen Stock Exchange 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 reserves 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: As at 29 December 2008, the undertakings made by Zhongxingxin in the Share Reform Plan had been fully complied with and all shares subject to lock-up were released. For details, please refer to the "Indicative Announcement on the Release of Shares Subject to Lock-up" published in China Securities Journal, Shanghai Securities News and Securities Times on 25 December 2008.

(3) ISSUE AND LISTING OF SECURITIES

1. The completion of offering and issue of the bonds cum warrants of the Company took place on 22 February 2008. For details, please refer to the section headed "(VI) Information on Offering and Issue of the Bonds Cum Warrants of the Company " under Section "XII. Material Matters" of this annual report.

2. The proposals of profit distribution and capitalisation from capital reserve of the Company for 2007 were implemented on 10 July 2008. As a result, the effective total share capital of the Company increased to 1,343,330,310 shares from 959,521,650 shares during the period from 1 January 2008 to the date up to which this report was made.

3. The Company had no employees' shares.

(4) SHAREHOLDERS AND EFFECTIVE CONTROLLER

1. Top ten shareholders of the Company and top ten holders of shares not subject to lock-up as at 31 December 2008

Total number of shareholders	36,324 shareholders (of which 35,989 were holders of A shares and 335 were holders of H shares)

Top ten shareholders					
Name of shareholders	Nature of shareholders	Percentage of shareholding (%)	Total number of shares held at the end of year (shares)	Number of shares held subject to lock-up (shares)	Number of pledged or frozen shares
1. Zhongxingxin	State-owned shareholders	35.52	477,088,010	0	None
2. HKSCC Nominees Limited	Foreign shareholders	16.66	223,755,615	0	Unknown
3. Southern Tracking Growth Stock Fund	Others	1.44	19,295,361	0	Unknown
4. Lion Value Growth Stock Fund	Others	1.27	17,000,000	0	Unknown
5. Hunan Nantian (Group) Co., Ltd	Others	1.19	16,004,534	0	Unknown
6. China International Domestic Demand Dynamic Stock Fund	Others	1.13	15,140,900	0	Unknown
7. Boshi Value Growth Fund	Others	1.12	15,000,000	0	Unknown
8. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	Others	0.93	12,502,281	0	Unknown
9. China International Fund Management Alpha Stock Fund	Others	0.91	12,181,584	0	Unknown
10. BoCom-Schroders Select Stock Fund	Others	0.82	10,983,857	0	Unknown

Shareholdings of top ten holders of shares not subject to lock-up			
Name of shareholders		**Number of shares held not subject to lock-up**	**Class of shares**
1.	Zhongxingxin	477,088,010	A shares
2.	HKSCC Nominees Limited	223,755,615	H shares
3.	Southern Tracking Growth Stock Fund	19,295,361	A shares
4.	Lion Value Growth Stock Fund	17,000,000	A shares
5.	Hunan Nantian (Group) Co., Ltd	16,004,534	A shares
6.	China International Domestic Demand Dynamic Stock Fund	15,140,900	A shares
7.	Boshi Value Growth Fund	15,000,000	A shares
8.	China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	12,502,281	A shares
9.	China International Fund Management Alpha Stock Fund	12,181,584	A shares
10.	BoCom-Schroders Select Stock Fund	10,983,857	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 (6th) and China International Fund Management Alpha Stock Fund (9th) 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.

	Name of shareholder	**Agreed period of shareholding**
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

Name of shareholder	Circulating shares not subject to lock-up held at the beginning of the year	Increase/decrease during the year (shares)	Reasons for change	Circulating shares not subject to lock-up held at the end of the year (shares)
Zhongxingxin	25,591,598	451,496,412	Note	477,088,010

Note: The change in the number of circulating shares not subject to lock-up held by Zhongxingxin during the reporting period is attributable to the implementation of the proposals of profit distribution and capitalisation from capital reserves of the Company for 2007, the release of locked-up shares held by Zhongxingxin in the Share Reform Plan as well as shareholding increase in the Company by Zhongxingxin during the reporting period. For details, please refer to the announcements headed "Announcement on Profit Distribution and Capitalisation from Capital Reserves for 2007", "Announcement on Shareholding Increase in the Company by Controlling Shareholder" and "Indicative Announcement on the Release of Shares Subject to Lock-up" published in China Securities Journal, Shanghai Securities News and Securities Times on 4 July 2008, 11 October 2008 and 25 December 2008 respectively.

3. Controlling shareholders of the Company

Name of controlling shareholder:	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 effective controller) of the Company's controlling shareholder

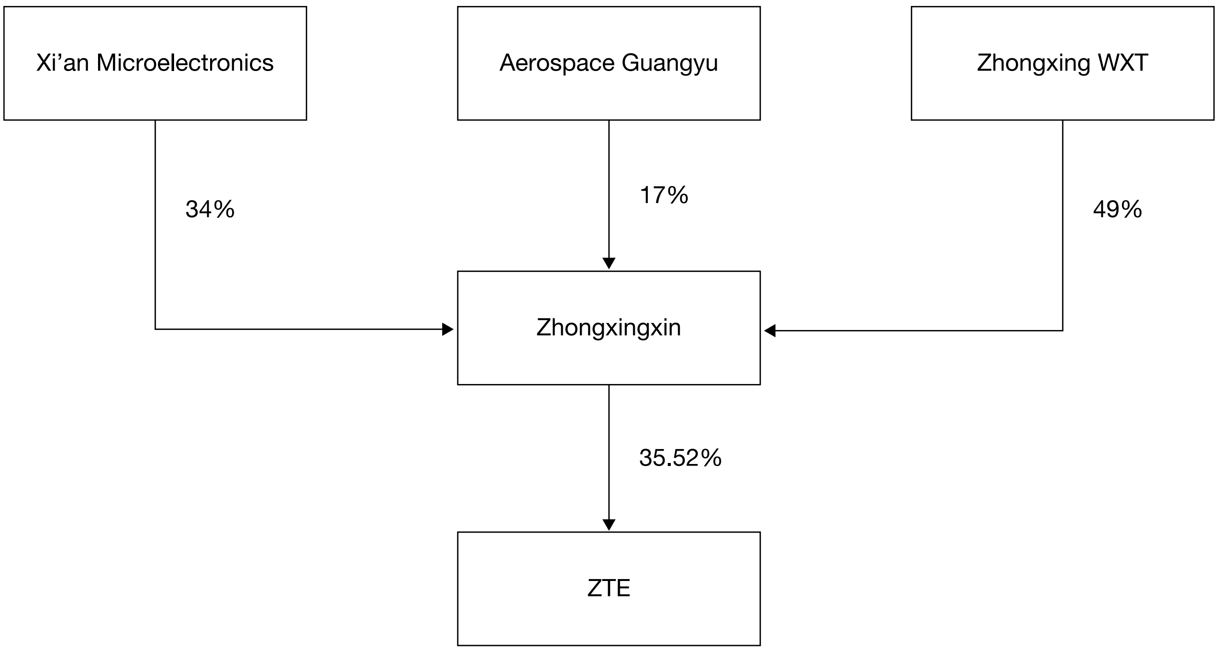
The controlling shareholder of the Company, Zhongxingxin was jointly formed by Xi'an Microelectronics, Aerospace Guangyu and Zhongxing WXT, each holding a 34%, 17% and 49% stake in Zhongxingxin respectively. Zhongxingxin currently has 9 directors, of which 3 have been nominated by Xi'an Microelectronics, 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 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 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 2008:



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

As at 31 December 2008, 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	477,088,010 A shares (L)	35.52	42.63
Zhongxing WXT	477,088,010 A shares (L)	35.52	42.63
Xi'an Microelectronics	477,088,010 A shares (L)	35.52	42.63
China Aerospace Times Electronics Corporation	477,088,010 A shares (L)	35.52	42.63
China Aerospace Science and Technology Corporation	477,088,010 A shares (L)	35.52	42.63
FMR LLC	21,086,060 H shares (L)	1.57	9.40
Goldman Sachs (Asia) LLC	11,622,000 H shares (L)	1.21 Note	7.26 Note
Goldman Sachs (Cayman) Holding Company	11,622,000 H shares (L)	1.21 Note	7.26 Note
Aranda Investments (Mauritius) Pte Ltd	11,141,800 H shares (L)	1.16 Note	6.96 Note
Alliance Bernstein L.P. (formerly "Alliance Capital Management L.P.")	13,381,800 H shares (L)	1.00	5.97
FIL Limited	11,841,420 H shares (L)	0.88	5.28
Massachusetts Financial Services Company ("MFS")	8,428,100 H shares (L)	0.88 Note	5.26 Note
Sun Life Financial, Inc.	8,428,100 H shares (L)	0.88 Note	5.26 Note
JPMorgan Chase & Co.	11,738,134 H shares (L)	0.87	5.24
	0 H share (S)	0.00	0.00
	11,377,454 H shares (P)	0.85	5.07

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

Note: Shareholding as a percentage of total share capital and relevant class of shares was calculated based on the Company's total share capital of 959,521,650 shares and 160,151,040 H shares as at 10 July 2008 prior to the capitalization from capital reserve.

Save as disclosed above, as at 31 December 2008, 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. Public float

On the basis of publicly available information known to the Board of Directors, the Company's public float is in compliance with the minimum public float requirement of Hong Kong Stock Exchange Listing Rules as at 18 March 2009.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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

1. Biography of Directors

Mr. Hou Weigui, 67, 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 39 years of management experience and business operations.

Mr. Wang Zongyin, 64, 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, 53, 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, 55, 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, 53, 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, 52, is a Non-executive Director of the Company. Mr. Dong graduated from Northeastern University majoring 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, and the secretary to the Party Committee of Aerospace Technology Shenzhen (Group) Co., Ltd. since 2008. 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, 45, 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 18 years in managerial positions.

Mr. Shi Lirong, 45, is an Executive Director of the Company. Mr. Shi has been an Executive Vice President of the Company since 1999 and is responsible for the sales operations of the Company. He is a senior engineer graduated from Tsinghua University in 1984 specialising in radio and information technology and 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 Senior Vice-President of the Company responsible for marketing and sales functions of the Company. Since 1999 he has been the Executive 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 18 years in managerial positions.

Mr. He Shiyou, 42, is an Executive Director of the Company. Mr. He has been an Executive 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 16 years in managerial positions.

Mr. Zhu Wuxiang, 43, 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 quantitative 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 Shenzhen Telling Telecommunications Holding Co., Ltd., Zhejiang Xinhai Electric Co., Ltd., Beijing Teamsun Technology Co., Ltd. and Goertek Inc.

Mr. Chen Shaohua, 47, 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, 38, 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, 63, 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, 41, is an Independent Non-executive Director of the Company. Mr. Li is currently the vice president of Technology Exchange Ltd. 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. Secretary to the Board of Directors/Company Secretary

Mr. Feng Jianxiong, 35, the Secretary to the Board of Directors and Company Secretary 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 9 years in managerial positions.

3. Biography of Supervisors

Mr. Zhang Taifeng, 67, 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, 42, is a supervisor of the Company, and is Assistant to Executive 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, 38, 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, 47, 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, 44, 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 Executive Vice President of the Company. Please refer to his biography under "Biography of Directors" in this section.

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

Mr. Wei Zaisheng, 46, has been an Executive 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 Senior Vice President of the Company. Since 1999 he has been the Executive Vice President of the Company in charge of the financial affairs of the Company. He has been appointed a member of China Accounting Informationization Committee and a member of XBRL Regional Steering Committee (China) by the Ministry of Finance since November 2008. Mr. Wei has many years of experience in the telecommunications industry, including over 20 years in managerial positions.

Mr. Xie Daxiong, 45, has been an Executive 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 Executive 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 12 years in managerial positions.

Mr. Tian Wenguo, 40, has been an Executive 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 Senior Vice President and general manager of Second Sales Division of the Company. Since 2005, he has been Executive 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 11 years in managerial positions.

Mr. Qiu Weizhao, 45, was a Senior Vice President of the Company from 1998 to 2006, and has been an Executive Vice President of the Company since 2007. Mr. Qiu was responsible for the logistics operations of the Company from 1998 to 2007, and since 2008 he has been responsible for the human resources and administration of the Company. Mr. Qiu 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. Mr. Qiu has many years of experience in the telecommunications industry, including over 20 years in managerial positions.

Mr. Fan Qingfeng, 40, has been an Executive Vice President of the Company since March 2008, and is responsible for the logistics operations of the Company. 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, the Senior Vice President of the Company and head of Beijing branch. Since March 2008 he has been Executive Vice President of the Company in charge of logistics operations. He has many years of experience in the telecommunications industry, including over 10 years in managerial positions.

Ms. Chen Jie, 50, has been a Senior 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 Senior 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 13 years in managerial positions.

Ms. Fang Rong, 44, has been a Senior 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 Senior 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 13 years in managerial positions.

Mr. Zhao Xianming, 42, has been a Senior Vice President of the Company since 2004 and is responsible for the marketing of wireless products. 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 Senior Vice President of the Company in charge of the CDMA Division of the Company. Since 2007 he has been Senior Vice President in charge of wireless products under the marketing operations. Mr. Zhao has many years of experience in the telecommunications industry, including over 17 years in managerial positions.

Mr. Pang Shengqing, 40, has been a Senior Vice President of the Company since 2005 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 2004. Since 2005 he has been Senior Vice President of the Company responsible for the First Sales Division of the Company. He has many years of experience in the telecommunications industry, including over 10 years in managerial positions.

Mr. Zeng Xuezhong, 35, has been a Senior 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 Senior 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 9 years in managerial positions.

Mr. Xu Huijun, 35, has been a Senior 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. Since 2007 he has continued to be Senior Vice President of the Company in charge of after-sales services of the sales operations. Mr. Xu has many years of experience in the telecommunications industry, including over 10 years in managerial positions.

Mr. Ye Weimin, 42, has been a Senior 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, majoring in computer science and engineering. He graduated from Rennes-Shanghai Jiaotong University in 2007 with a doctor of business administration degree conferred by ESC Rennes School of Business, specialising in business administration. 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 Senior 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 15 years in middle to senior management.

Mr. Ni Qin, 49, has been a Senior 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 Senior 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 14 years in managerial positions.

Mr. Wu Zengqi, 44, 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 9 years in managerial positions.

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

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

									Quota of Subject Shares granted during the reporting period (A shares)				
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 (share)	Number of shares unlocked (shares)	Grant price (cum-right basis) (RMB)	Market price of A shares at the end of the reporting period (RMB)	Whether remuneration is received from shareholder entities or other connected entities
Hou Weigui	Chairman	Male	67	3/2007–3/2010	219,600	Notes 1 and 2	507,466	94.9	0	0	30.05	27.20	No
Wang Zongyin	Vice Chairman	Male	64	3/2007–3/2010	0	–	0	10.0	10,000	0	30.05	27.20	Yes
Xie Weiliang	Vice Chairman	Male	53	3/2007–3/2010	0	–	0	10.0	10,000	0	30.05	27.20	Yes
Zhang Junchao	Director	Male	55	3/2007–3/2010	0	–	0	10.0	10,000	0	30.05	27.20	Yes
Li Juping	Director	Male	53	3/2007–3/2010	0	–	0	10.0	10,000	0	30.05	27.20	Yes
Dong Lianbo	Director	Male	52	3/2007–3/2010	0	–	0	10.0	10,000	0	30.05	27.20	Yes
Yin Yimin	Director and President	Male	45	3/2007–3/2010	121,680	Notes 1 and 2	270,442	242.7	0	0	30.05	27.20	No
Shi Lirong	Director and Executive Vice President	Male	45	3/2007–3/2010	95,760	Notes 1 and 2	154,064	85.1	0	0	30.05	27.20	No
He Shiyou	Director and Executive Vice President	Male	42	3/2007–3/2010	91,007	Notes 1 and 2	147,410	115.9	0	0	30.05	27.20	No
Zhu Wuxiang	Independent Director	Male	43	3/2007–3/2010	0	–	0	10.0	0	0	30.05	27.20	No
Chen Shaohua	Independent Director	Male	47	3/2007–3/2010	0	–	0	10.0	0	0	30.05	27.20	No
Qiao Wenjun	Independent Director	Male	38	3/2007–3/2010	0	–	0	10.0	0	0	30.05	27.20	No
Mi Zhengkun	Independent Director	Male	63	3/2007–3/2010	0	–	0	10.0	0	0	30.05	27.20	No
Li Jin	Independent Director	Male	41	3/2007–3/2010	0	–	0	10.0	0	0	30.05	27.20	No
Zhang Taifeng	Chairman of Supervisory Committee	Male	67	3/2007–3/2010	121,680	Note 1	170,352	94.9	0	0	30.05	27.20	No
Wang Wangxi	Supervisor	Male	42	3/2007–3/2010	0	–	0	57.7	0	0	30.05	27.20	No
He Xuemei	Supervisor	Female	38	3/2007–3/2010	0	–	0	48.8	0	0	30.05	27.20	No
Qu Deqian	Supervisor	Male	47	3/2007–3/2010	10,020	Note 1	14,028	0	0	0	30.05	27.20	No
Wang Yan	Supervisor	Female	44	3/2007–3/2010	0	–	0	0	0	0	30.05	27.20	No
Wei Zaisheng	Executive Vice President and Chief Financial Officer	Male	46	3/2007–3/2010	95,760	Notes 1 and 2	165,564	110.7	0	0	30.05	27.20	No
Xie Daxiong	Executive Vice President	Male	45	3/2007–3/2010	44,839	Notes 1 and 2	82,775	112.9	100,000	0	30.05	27.20	No
Tian Wenguo	Executive Vice President	Male	40	3/2007–3/2010	18,225	Note 1	25,515	113.6	100,000	0	30.05	27.20	No
Qiu Weizhao	Executive Vice President	Male	45	3/2007–3/2010	0	–	0	102.8	100,000	0	30.05	27.20	No
Fan Qingfeng	Executive Vice President	Male	40	3/2007–3/2010	0	Note 2	20,000	118.4	150,000	0	30.05	27.20	No
Chen Jie	Senior Vice President	Female	50	3/2007–3/2010	94,500	Notes 1 and 2	142,300	123.4	100,000	0	30.05	27.20	No
Fang Rong	Senior Vice President	Female	44	3/2007–3/2010	41,385	Notes 1 and 2	72,940	60.3	100,000	0	30.05	27.20	No
Zhao Xianming	Senior Vice President	Male	42	3/2007–3/2010	0	Note 2	15,000	81.5	180,000	0	30.05	27.20	No
Pang Shengqing	Senior Vice President	Male	40	3/2007–3/2010	0	Note 2	15,300	95.4	150,000	0	30.05	27.20	No
Zeng Xuezhong	Senior Vice President	Male	35	3/2007–3/2010	0	Note 2	30,000	111.9	150,000	0	30.05	27.20	No
Xu Huijun	Senior Vice President	Male	35	3/2007–3/2010	0	Note 2	15,000	107.5	180,000	0	30.05	27.20	No
Ye Weimin	Senior Vice President	Male	42	3/2007–3/2010	33,804	Notes 1 and 2	57,326	98.0	100,000	0	30.05	27.20	No
Ni Qin	Senior Vice President	Male	49	3/2007–3/2010	78,840	Notes 1 and 2	130,376	98.0	100,000	0	30.05	27.20	No
Wu Zengqi	Senior Vice President	Male	44	3/2007–3/2010	0	Note 2	20,000	79.9	150,000	0	30.05	27.20	No
Feng Jianxiong	Secretary to the Board	Male	35	3/2007–3/2010	0	Note 2	10,000	52.5	100,000	0	30.05	27.20	No
Total	**–**	**–**	**–**	**–**	**1,067,100**	**–**	**2,065,858**	**2,306.8**	**1,810,000**	**0**	**–**	**–**	**–**

Note 1: The profit distribution and capitalisation from capital reserves for 2007 (creation of 4 shares for every 10 shares and RMB2.5 for every 10 shares (including tax) in cash) were implemented on 10 July 2008. The shareholdings of Directors, supervisors and senior management are accordingly adjusted.

Note 2: Certain Directors and senior management of the Company purchased a total of 571,916 A shares (being circulating shares) of the Company in the secondary market during 28 October 2008 to 29 October 2008. The purchases were made at market prices and financed by their private funds. Details are published in the "Announcement on the Purchase of the Company's Circulating Shares by Directors and Senior Management of the Company" in China Securities Journal, Securities Times, and Shanghai Securities News by the Company on 30 October 2008.

(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	Authorized representative	Since 2003.10
Dong Lianbo	Zhongxingxin	Director	2007.4–2010.3
	CASIC Shenzhen (Group) Company Limited	Director, Secretary to the Party Committee 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	Vice 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	Secretary to the Party Committee and deputy general manager
Zhu Wuxiang	Tsinghua University	Professor
	Telling Telecommunications Holding Co., Ltd.	Independent director
	Zhejiang Xinhai Electric Co., Ltd.	Independent director
	Beijing Teamsun Technology Co., Ltd.	Independent director
	Goertek Inc.	Independent director
Chen Shaohua	Xiamen University	Professor
	廈門三五互聯科技股份有限公司	Independent director
Qiao Wenjun	Zhong Lun Law Firm	Partner/head of Shanghai Office
	Shanghai Jinqiao Export Processing Zone Development Co., Ltd.	Independent director
Mi Zhengkun	Nanjing University of Posts and Telecommunications	Professor
Li Jin	Dragon Pharmaceutical Inc.	Independent director
	Technology Exchange Ltd.	Vice President

Name	Name of shareholder	Position
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
He Shiyou	Holds positions in 2 subsidiaries including 深圳市中興移動通信有限公司	Chairman/director
	Zhongxing WXT	Supervisor
Wei Zaisheng	Holds positions in 10 subsidiaries including ZTE Kangxun	Chairman/director
	Zhongxing WXT	Director
	深圳創新科技投資集團有限公司	Supervisor
	Zhongxing Energy Company Limited	Director
Xie Daxiong	Holds positions in 6 subsidiaries including Shenzhen Zhongxing Wireless Communication Equipment Company Limited	Chairman/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 including 南京中興軟創科技股份有限公司	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	Holds positions in 2 subsidiaries including 深圳中興無線通訊有限公司	Director
Xu Huijun	Holds positions in 4 subsidiaries including Wuxi Zhongxing Optoelectronics Technologies Company, Limited	Chairman/director
Zeng Xuezhong	Holds positions in 3 subsidiaries including Anhui Wantong Posts and Telecommunications Company, Limited	Chairman/director
Wang Wangxi	Shenzhen Zhongruan Haina Technology Company, Limited	Chairman of supervisory committee
Qu Deqian	Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Director
	Holds positions in 2 companies including Shenzhen Zhongxing International Investment Co., Ltd. (深圳市中興國際投資有限公司)	Supervisor
	Zhongxing WXT	Deputy general manager
Wang Yan	Holds positions in 3 subsidiaries including Zhongxing Xinyu	Director/supervisor
Feng Jianxiong	Holds positions in 2 subsidiaries including Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited	Supervisor

(5) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. There was no change in the Directors of the Company during the year.

2. There was no change in the supervisors of the Company during the year.

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

At the thirteenth meeting of the Fourth Session of the Board of Directors of the Company held on 19 March 2008, the resignation of Ms. Zhou Susu as Senior Vice President of the Company for personal reasons and the resignations of Mr. Yu Yong and Mr. Zhong Hong respectively as Vice President of the Company for personal reasons were approved. At the eighteenth meeting of the Fourth Session of the Board of Directors of the Company held on 6 October 2008, the resignation of Mr. Ding Mingfeng as Senior Vice President of the Company for personal reasons was approved.

(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) DIRECTORS' ATTENDANCE AT THE BOARD MEETINGS

Name of Directors	Position	Attendance required	Attendance in person (including attendance via video conference)	Attendance via communications means	Attendance by proxy	Absence	Two consecutive absences
Hou Weigui	Chairman and Non-executive Director	11	3	6	2	0	Nil
Wang Zongyin	Vice Chairman and Non-executive Director	11	2	6	3	0	Nil
Xie Weiliang	Vice Chairman and Non-executive Director	11	5	6	0	0	Nil
Zhang Junchao	Non-executive Director	11	1	6	4	0	Nil
Li Juping	Non-executive Director	11	3	6	2	0	Nil
Dong Lianbo	Non-executive Director	11	5	6	0	0	Nil
Yin Yimin	Executive Director	11	3	6	2	0	Nil
Shi Lirong	Executive Director	11	3	6	2	0	Nil
He Shiyou	Executive Director	11	5	6	0	0	Nil
Zhu Wuxiang	Independent Non-executive Director	11	3	6	2	0	Nil
Chen Shaohua	Independent Non-executive Director	11	5	6	0	0	Nil

Name of Directors	Position	Attendance required	Attendance in person (including attendance via video conference)	Attendance via communications means	Attendance by proxy	Absence	Two consecutive absences
Qiao Wenjun	Independent Non-executive Director	11	5	6	0	0	Nil
Mi Zhengkun	Independent Non-executive Director	11	4	6	1	0	Nil
Li Jin	Independent Non-executive Director	11	4	6	1	0	Nil

Board meetings held during the year	11
Including: On-site meetings	2
Meetings via communications means	6
On-site meetings assisted by communications means	3

(8) HEADCOUNT AND CLASSIFICATION OF GROUP EMPLOYEES

As at the end of the year, the Group had 61,350 employees, with an average age of 29. There were 20 retired employees.

1. Classification by specialisation as follows:

Specialisation	Number of employees	Approximate percentage of total number of employees (%)
R&D	20,750	33.8
Marketing and sales	10,061	16.4
Customer service	10,837	17.7
Manufacturing	13,436	21.9
Administration	6,266	10.2
Total	61,350	100.0

2. Classification by academic qualifications:

Academic qualifications	Number of employees	Approximate percentage of total number of employees (%)
Doctorate degree	437	0.7
Master's degree	14,120	23.0
Bachelor's degree	28,157	45.9
Others	18,636	30.4
Total	61,350	100.0

CORPORATE GOVERNANCE STRUCTURE

The Company has prepared the "Corporate Governance Work Report" and the "Corporate Governance Report" in accordance with different requirements in forma 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, ensuring 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 CSRC. In 2008, 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 effective controller.

II. Corporate governance initiatives

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 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 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.

On 17 July 2008, an "Explanatory Statement on Rectification Matters set out in the Corporate Governance Rectification Report" was considered and approved at the fifteenth meeting of the Fourth Session of the Board of Directors of the Company, whereby it was noted that the Company had diligently investigated issues and inadequacies in the corporate governance structure in a comprehensive, objective and pragmatic manner and had carried out rectifications in respect of the rectification matters set out in its rectification plan in accordance with the requirements set out in CSRC Circular No. 27 (2008) and the "Notice on Work relating to the Further Advancement of Corporate Governance Initiatives" issued by Shenzhen CSRC.

III. Performance of duties by Independent Non-executive Directors

During the year, the Independent Directors played a significant role in optimising the corporate governance structure of the Company and protecting the interests of minority shareholders. 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, external investments and the granting of reserved Subject Shares under the Share Incentive Scheme), the Independent Directors have diligently 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 2008 was as follows:

Name of Independent Directors	Number of Board meetings requiring attendance	Attendance in person	Attendance by proxy	Absence
Zhu Wuxiang	11	9	2	0
Chen Shaohua	11	11	0	0
Qiao Wenjun	11	11	0	0
Mi Zhengkun	11	10	1	0
Li Jin	11	10	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 independent production systems, supplementary production systems and ancillary 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) Establishment and Improvement of the Company's Internal Control System

In accordance with the requirements of the "Basic Principles of Corporate Internal Control" jointly issued by the Ministry of Finance and CSRC, the "Guidelines for Internal Control of Listed Companies" issued by the Shenzhen Stock Exchange and other relevant laws, regulations and rules, the Board of Directors of the Company has reviewed and evaluated the effectiveness of the its internal control in 2008 and has made a self-assessment of its internal control.

For details of the Company's internal control, please refer to the 2008 Internal Control Report of ZTE Corporation published simultaneously with this report.

(II) 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 2008 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: the Company's internal control system was sound and effectively implemented in compliance with relevant regulations and requirements of securities regulatory authorities of Shenzhen and Hong Kong.

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.

(III) 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 conducted evaluation of the effectiveness of the Company's internal control system and is of the opinion that the evaluation and assessment process has been in compliance with the "Basic Principles of Corporate Internal Control" jointly issued by the Ministry of Finance and CSRC and the "Shenzhen Stock Exchange Guidelines for Internal Control of Listed Companies", and 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 2008 Annual Reports of Listed Companies".

(IV) Independent Opinion of the Independent Directors of the Company on the Self-Assessment of Internal Control

In accordance with provisions of the "Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange" and the "Shenzhen Stock Exchange Guidelines for Internal Control of Listed Companies", we have informed ourselves of the Company's internal control assessment and inspection, and are of the opinion that the internal control systems of the Company are in compliance with relevant laws and regulations of the State and requirements of the regulatory authorities. The Company has enhanced control over various business processes and effectively prevented any business risks in accordance with various internal control systems of the Company, including the "Internal Control System of the Company", "Information Disclosure System of the Company" and "Administrative Rules of the Company on Issue Proceeds". The Company continued to further advance the implementation of its internal control tasks in 2008, taking into account its own business development and requirements for the building of internal control regimes systems. The Company has established relevant control regimes and mechanisms for each of the five aspects of environment for control, risk assessment, business controls, information and communications and supervision 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.

VII. Corporate Social Responsibility Report

Over the years, the Company has diligently acted in accordance with the perspective of scientific development and actively fulfilled its corporate social responsibility. We have conscientiously incorporated corporate social responsibility concerns into our strategies, corporate culture and production operations, and we have committed strong efforts to build a harmonious enterprise.

As an entity that proactively assumes its corporate social responsibility, the Company adheres to social ethics of the highest standards in its day-to-day operation. We obtained accreditations for ISO14001 Environmental Management Systems and OHSAS18001 Occupational Health and Safety Management Systems in 2005 and, on that basis, we have been developing and improving a scientific, standardized and effective regime for managing corporate social responsibility. Currently, we have built an initial corporate social responsibility management regime covering the entire company and established a corporate social responsibility implementation team to launch a series of management practices and activities on corporate social responsibility.

For details of the Company's corporate social responsibility report, please refer to Corporate Social Responsibility Report of ZTE Corporation published simultaneously with this report.

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

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 2008.

I. Shareholders and Investors' Relations

(I) Shareholders

The Company adopts relevant measures to facilitate and ensure the smooth exercise of shareholders' rights in strict compliance with relevant laws and regulations of the PRC or otherwise and in accordance with pertinent requirements under the Articles of Association of the Company.

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. The notice of general meeting of the Company is in strict compliance with pertinent provisions of the Company Law, the Articles of Association of the Company and the Listing Rules in terms of dates, contents, delivery modes, announcement methods and shareholders' voting procedures, ensuring the smooth exercise of shareholders' right to participate in general meetings.

(II) Investors' relations

The Company is committed to the development of investors' relations programmes and sound communications with investors are being maintained via our investors' relations hotline, e-mail and investor reception. The Company regards the convening of its annual general meeting as one of the most important annual 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.

Details of the Company's reception of investors during 2008 are set out in XII. (13) of this report headed "Reception of Investors and Analysts, Communications and Press Interviews".

In the coming year, the Company will continue to enhance communications with investors so that they will come to offer more support and concern for the Company on the back of better understanding.

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 2008. 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 also notes that another partner firm of the head office of the law firm that Mr. Qiao Wenjun, Independent Non-executive Director, is currently working with is acting as the legal adviser for a project of the Company. Mr. Qiao Wenjun has issued the following statement on his independence, in addition to the statement on his independence in day-to-day affairs. Accordingly, the Company is of the opinion that Mr. Qiao Wenjun's independence as an Independent Non-executive Director is in compliance with relevant provisions of the Listing Rules:

"I am currently a partner at the Shanghai Branch of Zhong Lun Law Firm ("Zhong Lun"). Another partner firm of the Beijing head office of Zhong Lun is currently acting as the legal adviser for an overseas project of the Company to provide legal consultation services. I will not participate in or vote in respect of this project. While as a partner of Zhong Lun, I will be entitled to a distribution out of the income generated by Zhong Lun from this project, such distribution will amount to approximately RMB5,200 only according to my estimation. Such amount is insignificant relative to the income I earn with Zhong Lun and to my personal wealth. Based on the above analysis, I am of the opinion that my independence as an Independent Non-executive Director of the Company has not been compromised."

The Company is of the opinion that all independent directors (including Mr. Qiao Wenjun) 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 VI. (5) of this annual report headed "Changes in Directors, Supervisors and Senior Management".

(IV) Board Meetings

1. The Articles requires that the Board of Directors convene at least 4 meetings a year. In 2008, the Board of Directors of the Company convened 11 working meetings, the details of which are set out under IX.(II).16 headed "Daily Work of the Board of Directors" of this annual report. Attendance of Directors at the meetings of the Board of Directors in 2008 was set out in the following table:

Directors	Attendance in person	Attendance by proxy
Chairman and Non-executive Director		
Hou Weigui	9/11	2/11
Vice Chairman and Non-executive Director		
Wang Zongyin	8/11	3/11
Xie Weiliang	11/11	—
Non-executive Director		
Zhang Junchao	7/11	4/11
Li Juping	9/11	2/11
Dong Lianbo	11/11	—
Executive Director		
Yin Yimin	9/11	2/11
Shi Lirong	9/11	2/11
He Shiyou	11/11	—
Independent Non-executive Director		
Zhu Wuxiang	9/11	2/11
Chen Shaohua	11/11	—
Qiao Wenjun	11/11	—
Mi Zhengkun	10/11	1/11
Li Jin	10/11	1/11

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. To ensure adequate performance of duties by the Independent Non-executive Directors, the Company will organize on-site visits and communications with the Chief Financial Officer and Auditor for the Independent Non-executive Directors.

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 seventeenth meeting of the fourth session of the Board of Directors held on 20 August 2008 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 convenor 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 2008, the Remuneration and Evaluation Committee convened 5 meetings. Attendance at the meetings was as follows:

Members of the Remuneration and Evaluation Committee	Attendance in person	Attendance by proxy
Zhu Wuxiang	4/5	1/5
Hou Weigui	5/5	—
Wang Zongyin	3/5	2/5
Chen Shaohua	5/5	—
Mi Zhengkun	5/5	—
Li Jin	5/5	—

(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 5 meetings in 2008 to:

a) Review the remuneration packages for 2007; performance appraisal of the President and other senior management of the Company for 2007 and determining their remuneration for 2007;

b) Review and approve the 2008 remuneration budget of the Company;

c) Review and approve the performance management plan for the senior management of the Company for 2008.

d) 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.

e) Perform work relating to the implementation of the Phase I Share Incentive Scheme of the Company, including the grant of Reserved Subject Shares under the Phase I Share Incentive Scheme.

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 2008, the Nomination Committee convened 2 meetings. Attendance of the meetings was as follows:

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

(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 2008, the Nomination Committee held 2 meetings to consider and approve the resignation of Ms. Zhou Susu as Senior Vice President of the Company for personal reasons, the resignations of Mr. Zhong Hong and Mr. Yu Yong respectively as Vice President of the Company for personal reasons and the resignation of Mr. Ding Mingfeng as Senior Vice President of the Company for personal reasons, and submit the same to the Board of Directors for approval.

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 2008, the Audit Committee convened 7 meetings. Attendance of the meetings was as follows:

Members of the Audit Committee	Attendance in person	Attendance by proxy
Chen Shaohua	7/7	—
Hou Weigui	5/7	2/7
Zhang Junchao	2/7	5/7
Dong Lianbo	7/7	—
Zhu Wuxiang	5/7	2/7
Qiao Wenjun	6/7	1/7
Mi Zhengkun	7/7	7/7
Li Jin	5/5	—

(3) Work of the Audit Committee during the year

The Audit Committee convened 7 meetings in 2008 to:

a) Review the financial report of the Company for the year ended 31 December 2007, and submit the same to the Board of Directors for its consideration and approval;

b) Review whether actions taken by the management in litigations in which the Company or any members of the Group is a defendant are appropriate;

c) Review resolutions of the Company on making substantial asset impairment provisions for 2007, and submit the same to the Board of Directors for its consideration and approval;

d) Review the self-assessment report on internal control of the Company for the year ended 31 December 2007;

e) Review the internal audit and internal control testing reports of the Company for the year ended 31 December 2007;

f) Review the audit fees payable to the PRC and international auditors for the year ended 31 December 2007 and submit the same to the Board of Directors for its consideration and approval;

g) Review resolutions of the Company on the appointment of PRC and international auditors for 2008 and submit the same to the Board of Directors and general meeting for consideration and approval;

h) Review the summary report on the 2007 audit of the Company performed by the PRC and international auditors;

i) Review the resolution of the Company on the "Self-inspection Summary Report on Fund Appropriation by Majority Shareholders and Its Connected Parties";

j) Review the interim financial report of the Company for the six months ended 30 June 2008, and submit the same to the Board of Directors for its consideration and approval.

(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 ongoing 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 VI.(5) of this annual report headed “Changes in Directors, Supervisors and Senior Management”

The Supervisory Committee convened 7 meetings in 2008. Attendance of meetings is set out as follows:

Members of the Supervisory Committee	Attendance in person	Attendance by proxy
Zhang Taifeng	6/7	1/7
Wang Wangxi	5/7	2/7
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 2008 are set out in the section of this annual report headed “XI. Report of the Supervisory Committee”.

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

(I) Remuneration

Please refer to 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 2008.

(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 2008 are set out in 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 2008, 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 2008, 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 2008.

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 33 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 4 consecutive years 2005, 2006, 2007 and 2008. Ernst & Young has been appointed the Company's Hong Kong auditors for 5 consecutive years since 2004.

Items	Amount	Auditors
Audit fees 2008	RMB0.84 million	Ernst & Young Hua Ming
Audit fees 2008	HK$5.04 million	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 Directors are responsible for reviewing the financial reporting functions to determine whether there is sufficient manpower.

The Company continued to improve its internal control system in 2008 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 convenes 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 are being 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 2008.

During the year, the Company performed self-inspection on its corporate governance and self-assessment on its internal control. A self-assessment report on internal control has been prepared as a result. For details of the Company's internal control in 2008, please refer to the sections headed "II. Corporate Governance Initiatives" and "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 2007 annual general meeting was held on-site on 27 May 2008. The announcement of resolutions passed at the meeting was published in China Securities Journal, Securities Times and Shanghai Securities News on 28 May 2008.

The Company convened the first extraordinary general meeting of 2008 on-site on 27 November 2008. The announcements of resolutions passed at the meeting were published in China Securities Journal, Securities Times and Shanghai Securities News on 28 November 2008.

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 2008.

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 carriers' networks, handsets, and telecommunications software systems and services.

FINANCIAL RESULTS

Please refer to page 109 and page 212 of this annual report for the results of the Group for the year ended 31 December 2008 prepared in accordance with PRC ASBEs 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 2008 prepared in accordance with the PRC ASBEs.

Set out on page 20 of this annual report are the results and financial position of the Group for the five financial years ended 31 December 2008 prepared in accordance with HKFRSs, which have been extracted from the respective financial statements of the Group for each of the five financial years ended 31 December 2004, 2005, 2006, 2007 and 2008 prepared in accordance with HKFRSs.

(I) Business review for 2008

Overview of the PRC telecommunications industry in 2008

Equipment makers of the domestic communications industry were presented with new opportunities for business growth in 2008 as industry resources had been realigned following a major reshuffling of the sector, underpinned by the establishment of the Ministry of Industry and Information Technology as well as the issuance of 3G licenses.

Overview of the global telecommunications industry in 2008

While worldwide economic recession triggered by the global financial crisis in 2008 dealt a heavy blow to nearly all sectors, the measure by which the communications industry had been affected was slightly smaller than average. The global telecommunications market was shifting from user-driven to business-driven growth, where investments were rapidly increasing in emerging markets such as the Asia Pacific, Africa and Latin America, while data business is fastest-growing segment in developed countries.

The equipment manufacturing industry continued to be underpinned by intense competition during the year. While favouring telecommunications carriers in terms of cost reductions, such competition also presented new opportunities to equipment makers from developing countries.

Operating results of the Group for 2008

The Group sustained stable development in 2008 and reported satisfactory growth for the reporting period despite pressures in the domestic and international market. Operating revenue of the Group based on financial statements prepared in accordance with PRC ASBEs and HKFRSs amounted to RMB44.293 billion, representing a year-on-year growth of 27.36%. Net profit grew 32.58% to RMB1,660 million.

By market:

The domestic market

The Group's revenue from its domestic operations amounted to RMB17.466 billion in 2008, representing a year on-year growth of 18.93%. We continued to substantially increase our market share in infrastructure products and lock in reasonable profitability by capitalising on 3G construction and broadband development in the PRC. Meanwhile, the Group was also actively involved in network overhaul, business integration and new business development, as it seized the enormous opportunity arising from the trend for carriers to transform into integrated information service suppliers through network fusion, business centralisation and competition via differentiation.

The international market

In 2008, the Group's revenue from its international operations grew 33.53% to RMB26.827 billion and accounted for 60.57% of its total operating revenue. While securing its market shares in developing countries, the Group was also steadily increasing the weight of sales in Europe and America, which were expected to grow into an important source for the Group's revenue.

By product:

Carriers' networks

The mainstream products, markets and carriers form the cornerstone for the Group's sustainable development. In 2008, the Group reported significant breakthroughs and growth in mainstream products such as GSM, WCDMA, optical transmission and FTTX. In the home market, the Company rolled out an optimal framework for 3G construction by actively participating in the 3G project tenders of the three leading domestic telecommunications carriers. Internationally, important breakthroughs have been made in regional strategic markets while our share in the market for multi-national carriers has been further substantiated, paving the way for setting new benchmarks in 2009.

In terms of the mainstream products, the Company maintained rapid year-on-year growth in global deliveries for GSM and WCDMA. Continuous improvements in new market shares around the world were reported, while our delivery capabilities for WCDMA products were well recognised by top-rate customers. During the period, our business in optical transmission products continued to report rapid growth in Southeast Asia, Asia Pacific and South Africa, while considerable progress was also being made in America and Europe. At the home market, we held a dominant market share for FTTX products.

In terms of mainstream markets, the Company continued to cement its market position in national and regional markets such as the PRC and India, while making various breakthroughs in markets where we traditionally lagged behind, such as the Middle East, CIS and South America. In Europe and North America, we succeeded in fostering added strengths in our system equipment products as our cooperation with major carriers such as Vodafone and Telstra entered into realistic stages.

Handsets

The Group's handset business continued to enjoy rapid full-year growth in 2008. International sales of handsets sustained speedy growth to maintain a significant weighting in the Group's gross handset sales, while GSM and WCDMA models provided the strongest growth drivers. In the coming year, the Group will continue to focus on mobile communications requirements in emerging markets, enhancing its profile as professional provider in handset customisation that serves carriers' requirements for bulk purchases by providing quality low-end products as well as high-end intelligence/differentiation products and mobile broadband products.

Telecommunication Software Systems, Services and other products

The Group reported growth in value-added services in 2008 with the benefit of increased carrier investments in this segment coupled with increased service revenue of subsidiaries.

(II) Discussion and analysis prepared under PRC ASBEs

The financial data below are extracted from the Group's audited financial statements prepared in accordance with PRC ASBEs. 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 set out in the Annual Report.

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

	Revenue mix	Operating revenue (RMB in millions)	Operating costs (RMB in millions)	Operating profit margin	Year-on-year increase/ decrease in operating revenue	Year-on-year increase/ decrease in operating costs	Year-on-year increase/ decrease in operating profit margin (percentage points)
I.	**By industry**						
	Manufacturing of communication equipment	44,293.4	29,492.5	33.42%	27.36%	28.20%	(0.43)
	Total	**44,293.4**	**29,492.5**	**33.42%**	**27.36%**	**23.20%**	**(0.43)**
II.	**By product**						
	Carriers' networks	28,963.8	18,315.3	36.76%	28.34%	36.71%	(3.87)
	Handset	9,692.6	7,393.0	23.73%	26.78%	24.47%	1.42
	Telecommunication software systems, services and other products	5,637.0	3,784.2	32.87%	23.49%	3.18%	13.22
	Total	**44,293.4**	**29,492.5**	**33.42%**	**27.36%**	**28.20%**	**(0.43)**
III.	**By geographic region**						
	The PRC	17,466.4	11,181.3	35.98%	18.93%	11.95%	3.99
	Asia (excluding the PRC)	10,432.9	7,848.5	24.77%	7.78%	13.63%	(3.87)
	Africa	9,311.1	5,240.9	43.71%	69.76%	80.48%	(3.35)
	Other regions	7,083.0	5,221.8	26.28%	43.78%	62.89%	(8.65)
	Total	**44,293.4**	**29,492.5**	**33.42%**	**27.36%**	**28.20%**	**(0.43)**

Note : To conform the Company's product information disclosure with customary classification adopted by the industry and to take into account the Company's characteristics, the Company has decided to change the previous five product categories by combining the wireless communications systems category optical communications and data communications systems category and wireline switch and access systems category into the category of networks, while the disclosure and composition of the other two categories will remain unchanged.

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

By product	Operating revenue (RMB in millions)	Operating costs (RMB in millions)	Operating profit margin
Carriers' networks	28,963.8	18,315.3	36.76%
Handset	9,692.6	7,393.0	23.73%
Telecommunication software systems, services and other products	5,637.0	3,784.2	32,87%

3. Breakdown of the Company's assets

Unit: RMB in millions

Items	2008 Amount	2008 As a percentage of total assets	2007 Amount	2007 As a percentage of total assets	Increase/ decrease
Total assets	**50,865.9**	**100%**	39,229.6	100%	29.66%
Trade receivables	**9,972.5**	**19.61%**	7,098.9	18.10%	40.48% Note 1
Fixed assets	**4,103.1**	**8.07%**	3,038.1	7.74%	35.05% Note 2
Long-term equity investments	**168.4**	**0.33%**	137.0	0.35%	22.92%
Construction in progress	**817.1**	**1.61%**	931.1	2.37%	(12.24%)
Short-term borrowings	**3,882.5**	**7.63%**	2,839.9	7.38%	34.16% Note 3
Inventories	**8,978.0**	**17.65%**	7,429.5	18.94%	20.84%
Investment properties	**0**	**0**	0	0	0
Long-term loans	**1,292.5**	**2.54%**	2,085.2	5.32%	(38.02%) Note 4

Note 1: The balance of trade receivables increased by 40.48%, year-on-year, mainly as a result of sales growth.

Note 2: The balance of fixed assets increased by 35.05%, year-on-year, mainly as a result of the increase in the purchase of housing, buildings and machinery and equipment required as a result of the expansion of the Company's operations.

Note 3: The balance of short-term borrowings increased by 34.16%, year-on-year, mainly reflecting additional borrowings to meet working capital requirements and as a means to avoid foreign exchange risks.

Note 4: The balance of long-term loans decreased by 38.02%, year-on-year, mainly reflecting the re-classification of certain long-term loans to be due in less than one year as non-current liabilities due in less than one year.

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

Items	As a percentage of total profit 2008	As a percentage of total profit 2007	Increase/ decrease (percentage points)
Operating profit	**55.04%**	57.92%	(2.88)
Expenses for the period	**561.96%**	571.70%	(9.74)
Investment gains	**5.42%**	3.44%	1.98
Non-operating income and expenses, net	**44.96%**	42.08%	2.88

Unit: RMB in millions

Item	2008	2007	Increase/ decrease
Selling and distribution expenses	**5,312.5**	4,395.1	20.87%
General and administrative expenses	**2,099.7**	1,777.6	18.12%
Finance expenses	**1,308.3**	494.4	164.62%[1]
Income tax	**350.6**	276.3	26.89%

Note 1: Finance expenses increased by 164.62%, year-on-year, mainly as a result of increased interest expenses in line with the increase in borrowings and increased exchange losses.

5. Breakdown of cash flow

Unit: RMB in millions

Items	2008	2007	Increase/ decrease
Net cash flow from operating activities	**3,647.9**	88.4	4,026.58%[1]
Net cash flow from investing activities	**(1,987.7)**	(1,757.6)	(13.09%)
Net cash flow from financing activities	**3,642.7**	3,828.3	(4.85%)

Note 1: Net cash flow from operating activities increased by 4.206.58%, year-on-year, mainly as a result of increased revenue in line with the expansion in sales.

6 Business operations and results of principal subsidiaries

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

Unit: RMB in millions

Name of company	Registered capital	Shareholding percentage (%)	Scope of business	Total assets	Net assets	Revenue from principal operations)	Profit from principal operations	Net profit
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	3,145.0	2,060.3	6,230.7	6,198.1	1,664.8
ZTE HK	HK$500 million	100	Sales of products, purchase of original parts and ancillary equipment; technology development and transfer; training and consultation; investment and financing	2,037.9	925.1	3,175.7	515.7	224.5
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	1,174.5	607.3	1,656.7	1,555.7	270.0
ZTE Kangxun	RMB50 million	90	Production of electronic products and related parts (excluding restricted items)	12,361.5	2,185.1	27,603.2	582.1	259.4

(2) Subsidiaries acquired or disposed of during the year

Unit: RMB in thousands

New subsidiaries consolidated	Effective date of consolidation	Net assets as at the end of the period	Net profit as at the end of the period	Reason for the change in scope of consolidation
Xi'an Zhongxing New Software Company Limited (西安中興新軟件有限責任公司)	31 December 2008	600,000	0	Expansion of business scope
ZTE JAPAN K.K.	31 March 2008	2,083	(187)	Expansion of business scope
ZTE Bolivia S.R.L.	31 August 2008	(228)	(302)	Expansion of business scope
ZTE Ukraine LLC	31 August 2008	103	0	Expansion of business scope
ZTE Lanka (Private) Limited	31 December 2008	6,493	0	Expansion of business scope
ZTE TECHNOLOGY	30 September 2008	1,631	1,221	Expansion of business scope
南京中興技術軟件有限公司	31 Ocotber 2008	4,960	(40)	Expansion of business scope
ZET KAZAKHSTAN LLP	30 November 2008	817	(86)	Expansion of business scope
ZTE MONGOLIA LTD	31 December 2008	683	0	Expansion of business scope

Subsidiaries deconsolidated	Effective date of deconsolidation	Net assets as at the end of the period	Net profit as at the end of the period	Reason for the change in scope of consolidation
南京德瑞通訊技術有限公司	1 August 2008	(0.4)	(5)	Business integration requirements
ZTE Energy (Cayman) Co., Limited	1 November 2008	47,066	(9,254)	Business integration requirements
中興能源（湖北）有限公司	1 November 2008	48,647	(6,296)	Business integration requirements
中興能源技術（武漢）有限公司	1 November 2008	(1,845)	(2,891)	Business integration requirements
廣州南方電信系統軟件有限公司	1 March 2008	(14,640)	(190)	Business integration requirements

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 ASBEs.

7. There was no special-purpose entity under the control of the Company, as provided for in the practice note of "ASBE 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 2008, we continued to consolidate 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 2008, the Group's telecom-grade digital media network engineering and service development received a "Class II National Award for Technological Progress." The ZTE ES ethernet exchange products were included in the National Planning for Key New Products 2008-2009 on the back of outstanding product quality, innovative technology and successful market application. As the lead model for the mid- to high-end market among the Company's SDH products, the ZXMP S385 equipment offers carriers the advantage of lower network construction and maintenance costs as a product based on proprietary research and development. This advantage had given it a distinct edge over similar equipment made by foreign manufacturers, as it gained access to markets in over 30 countries in a short span of about 3 years. Our "E-MSTP Embedded RPR Solution", an application based on the ZXMP S385 product, won the "2008 BBWF Metro Network Technologies and Services Award" in a major honour for China-made communications products.

Proprietary product innovation remains the most important driver for the Group's growth. To facilitate ongoing progress in product innovation, the Company ensures that the annual investment in technology research and development will be no less than approximately 10% of its sales revenue and has formed a research and development team comprising 20,000 staff. The Company has undertaken more than 30 research and development under the National 863 Advanced Technology Research Programme, alongside with the research and development and industrialisation for a host of projects, such as the TD industrialization project, mobile project, electronics development fund and Guangdong-Hong Kong Fund, etc. The Group will persist in proprietary innovation over the long term as a means to continuously improve its core competitiveness.

The Company implemented the green concept of "energy conservation and waste reduction" throughout its entire business process from product design, procurement, production, transportation, application to recycling, ensuring that carriers' networks will operate in full compliance with this initiative for environmental protection. The Company's drive to promote and improve its environment-friendly solutions is underpinned by an emphasis on the building of "green" networks and the application of environment-friendly energy conservation technologies.

9. Major suppliers and customers

Purchases by the Group from its largest supplier amounted to RMB1,826 million in 2008, accounting for 7.46% of the total purchases of the Group for the year, while the purchases made from its five largest suppliers amounted to RMB4,202 million, accounting for 17.16% 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 ASBEs were consistent with corresponding figures prepared in accordance with HKFRSs).

Sales by the Group in 2008 to its largest customer amounted to RMB5,640 million, accounting for 12.7% of the total sales of the Group for the year, while sales to its five largest customers amounted to RMB16,926 million, accounting for 38.2% 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 ASBEs and HKFRSs).

10. Investments

(1) Use of issue proceeds during the reporting period.

The Company issued 40 million bonds cum warrants with a value of RMB4 billion ("Bonds cum Warrants") on 30 January 2008. The net proceeds of RMB3,961,443,520 raised from the issue of the Bonds cum Warrants after deduction of the underwriting commission, sponsorship fees and registration fees were deposited into the designated account of the Company opened with National Development Bank, Shenzhen Branch (account number: 44301560040310230000) on 5 February 2008. A capital verification report in respect thereof was issued by Shenzhen Nanfang-Minhe CPA on 5 February 2008. The Company utilised RMB2,303,063,400 of the issue proceeds in the reporting year and a total of RMB3.88 billion had been utilised on an accumulative basis. A verification report on the deposit and application in 2008 of proceeds from the issue of bonds cum warrants of the Company has been furnished by 廣東大華德律會計師事務所 (Guangdong Dahua Delu Certified Public Accountants).

An examination opinion has been furnished by Guotai Jun'an Securities Co., Ltd., the sponsor of the Company's bonds cum warrants. For details, please refer to the "Verification Report on the 2008 Deposit and Application of Issue Proceeds of ZTE Corporation" published simultaneously with this report.

As at the end of the reporting period, the said issue proceeds of the Company were applied as follows:

Unit: RMB in ten thousands

Gross amount of issue proceeds	396,144.35	Gross amount of issue proceeds utilised during the reporting period	230,306.34
Gross amount of issue proceeds for which use has been changed	0	Gross amount of issue proceeds utilised to-date	388,000.00
Proportion of gross amount of issue proceeds for which use has been changed	0		

Projects committed	Any change in project (including projects with changes)	Total amount of issue proceeds committed to invesmtent	Investment amount planned as at the end of the period (1)	Amount invested during the year	Accumulated investment as at the end of the period (2)	Difference between accumulated investment and investment amount planned as at the end of the period (2)-(1)	Progress of investment as at the end of the period (2)/(1)	Period for return of capital (year)	Earnings	Anticipated benefits	Whether there has been significant change to project feasibility
The building-up of the research and development and production environment and scale production capacity of TD-SCDMA HSDPA system equipment	No	18,782	N/A	7,678.80	18,782.00	N/A	N/A	3.03	See below	Yes	No
The building-up of the development environment and scale production capacity of TD-SCDMA terminal products	No	11,776	N/A	4,729.07	11,776.00	N/A	N/A	4.12	See below	Yes	No
Industrialisation of TD upgrade technology	No	67,326	N/A	35,593.04	41,211.51	N/A	N/A	5.70	See below	Yes	No
Construction of innovative handset platform	No	174,915	N/A	78,058.37	136,882.09	N/A	N/A	5.29	See below	Yes	No
Construction of next generation broadband wireless mobile SDR platform	No	53,358	N/A	23,718.66	37,506.97	N/A	N/A	5.93	See below	Yes	No
Industralisation of next generation IP-based amalgamation network for full multi-media services	No	39,727	N/A	18,957.04	39,727.00	N/A	N/A	5.49	See below	Yes	No
Research, development and production of integrated network management system	No	56,635	N/A	18,371.01	30,487.71	N/A	N/A	5.31	See below	Yes	No
Industrialisation of xPON optical access	No	49,371	N/A	21,105.32	32,729.02	N/A	N/A	5.42	See below	Yes	No
Industrialisation of next generation optical network transmission equipment	No	64,108	N/A	23,136.80	39,939.47	N/A	N/A	5.05	See below	Yes	No
Construction of ICT integrated business platform	No	99,647	N/A	54,916.59	54,916.59	N/A	N/A	3.94	See below	Yes	No
Industrialisation of RFID systems integration	No	19,394	N/A	9,871.89	9,871.89	N/A	N/A	5.02	See below	Yes	No
Total	**–**	**655,039**	**–**	**296,136.59**	**453,830.25**	**–**	**–**	**–**	**–**	**–**	**–**

Non-fulfillment of scheduled progress or anticipate earnings and reasons	The scheduled progress of projects utilising proceeds from the issue of Bonds cum Warrants of the Company was fulfilled.
Significant change to project feasibility	Nil
Change to implementation location of investment projects using issue proceeds	Nil
Change to implementation method of investment projects using issue proceeds	Nil
Initial investments and fund replacements in investment projects using issue proceeds	In order to expedite the construction of issue proceeds 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.
Application of idle funds as additional working capital	There was no application of idle funds as additional working capital.
Amount of issue proceeds in surplus of requirements for project implementation and reasons	There was no Company issue proceeds in surplus of requirements for project implementation.
Use and whereabouts of unutilised issue proceeds	Unutilised issue proceeds remained deposited in the account of the Company opened with National Development Bank, Shenzhen Branch designated for such issue proceeds
Problems and other information in the use of issue proceeds and related disclosure	Nil

Note 1: There was no adjustment to the total amount of issue proceeds committed to investment.

Note 2: As at 31 December 2008, the Company had invested RMB4,538,302,500 in issue proceed investment projects. For certain of these projects, the agreed investment amounts set out in issue prospectuses had been met and the portion in excess had been funded by the Company's internal resources. Such portion would be replaced if the warrants are exercised upon maturity.

The progress of the projects and the earnings generated from them are discussed as follows:

The building-up of the research and development and production environment and scale production capacity of TD-SCDMA HSDPA system equipment

Following the completion of research and development of system equipment for the project, ancillary facilities for production environments such as the assembly environment, adjustment and testing environment and high-temperature aging environment were also ready for commercial supply after completion. Phase-one commercial equipment has been put to commercial application, while the dispatch of phase-two equipment has been completed.

The building-up of the development environment and scale production capacity of TD-SCDMA terminal products

On the basis of the initially built research and development environment and production environment for TD-SCDMA, ZTE had introduced a new terminal platform to enhance subsequent product development, especially HSDPA/HSUPA products. On the basis of this new terminal platform, a number of terminals were developed and equipment required for subsequent technology upgrades were introduced. Currently, commercial applications have been developed and launched in volumes. With ongoing efforts, ZTE has been a leader in the market in terms of TD-SCDMA subsequent technology upgrades, product research and development and commercial production capabilities.

Industrialisation of TD upgrade technology

As a TD upgrade technology, LTE/LTE-A represents the most important strategic work of ZTE, who has set up a research team comprising experts from the WCDMA, TD-SCDMA, WiMAX and CDMA lines as well as the next-generation communications technology (such as NGMN, FuTURE, LTE, enhanced LTE and enhanced IMT) research groups and dedicated to the research of key LTE and enhanced LTE technologies, covering areas such as network topological relationships and upgrades, SON and its enhancements, random access, paging and DRX, modulation, channel coding and enhancements, resource allocation and dispatch, MIMO and enhancements of multi-antenna technologies, ICIC and COMP, intra-LTE switching and switching between other systems and LTE, RRM and its enhancements, MBMS, MBSFN and its enhancements, H(e)NB structure and access control, Relay, etc.

Moreover, ZTE has offered numerous new technical propositions or solutions for the LTE Standards (3GPP Rel-8 version). For example, the ZTE series (comprising core technologies such as PRACH configuration, PRACH resource mirroring, ZC sequence realignment and short prefix design) has covered nearly the entire TDD PRACH structure. ZTE's research on RACH has also been extended to level 2 and level 3 of the structure. For this reason, ZTE has become the first manufacturer to propose the use of dedicated prefix during the process of random access in the switching within LTE. In this proposition, ZTE has elucidated how a non-competing RACH process can accelerate the course of execution and significantly shorten the period of business interruption. ZTE has also made significant contributions to the LTE TDD specific PCH sub-frame configuration and the solution for BCCH dispatch on the downlink CCCH channel. In recognition of its persistent contributions in the areas of MBMS enhancements, MBSFN transmission and E-MBMS structure, ZTE has been appointed the report drafter for the 3GPP TS26.444 conference, bringing the total reporter-seats of ZTE at the 3GPP conference to 8.

In 2009, the Company will commit additional resources to enhance its technological strengths and industry influence in LTE/LTE-A, in a bid to lay a solid foundation for subsequent industrialisation and commercialisation.

Construction of innovative handset platform

Handset TV: The initial target of achieving customization in a short period was achieved with the basic completion of the handset TV platform tracking domestic and international mainstream handset TV standards. The next stage has started, which is the design of the business platform structure, and detailed design is currently underway.

Intelligence handsets: The launch of the 3G Windows Mobile Intelligence Handset with a full keypad and large touch-screen monitor operating on the Qualcomm platform is in the pipeline.

GoTa handsets: Two professional models of GoTa handsets, G780 and G682, have been commercially launched after completion of research and development. Research and development has formally commenced for a new model with special features including out-of-network communications and explosion-proof devices and progress has been satisfactory.

IMS customer-end software platform: Integration and optimisation of the elementary version was completed with further functional improvements. Fetion, PoC and VideoSharing services were put to partial commercial application in the TD-SCDMA terminal series. Development of the IMS multi-media video conferencing module has been completed and the product is currently under testing and verification. Service modules based on the IMS customer-end software platform have passed the TD-IMS project test of China Mobile Laboratory and will shortly undergo further testing and demonstration at existing TD-SCDMA networks.

Construction of next-generation broadband wireless mobile SDR platform

Following successful completion, the first commercial application version of hardware and base software platform has won tenders for the China Telecom CDMA network, China Mobile TD-SCDMA network and Hong Kong CSL network. The G/U dual-mode product completed successful test runs with a number of top carriers in the overseas market. As at the date of this report, the project has performed well in terms of market application, contributing significantly to the competitiveness of the Company's wireless network equipment.

Industrialisation of next generation IP-based amalgamation network for full multi-media services

A state-of-the-art multi-media network solution named ZIMS™ has been launched. Built on the core IMS system structure that supports the fusion of a rich variety of wireline networks and wireless networks as well as the provision of voice, data and multi-media services, this solution provides users with next-generation information services characterised by strong multi-media functions, diversity and the ability to customise.

For our IMS services, a desktop video-conferencing system was installed for certain high-end carriers and amalgamated with the HD conferencing system. These services were well received by carriers in practical application and the competitiveness of our IMS service platform was further enhanced as a result. The support of HD desktop video-conferencing services based on its understanding of similar products offered in the market is becoming a special feature in the differentiation of our IMS service platform.

Meanwhile, in response to the operational requirements of certain deployed pilot commercial stations, our IMS service is processing improvements to its distributive structure to prepare for the commercial application of large-scale platforms.

Research, development and production of Integrated network management system

With the completion of the development of the centralised network management software platform level, the inter-connection among core networks, wireless networks (including GSM, CDMA, WCDMA and TD-SCDMA), transmission networks, data networks and power supply networks, as well as overall topology, alarm management, performance data collection, centralised management and auxiliary functions such as report generation and event processing flow, can now be facilitated.

Industrialisation of xPON optical access

China Telecom and China Unicom started large-scale construction of EPON networks during 2008. ZTE topped the EPON tender lists of China Telecom and China Netcom to make EPON the genuine top domestic brand as it distinguished itself from competition on the back of its solid research and development capabilities and comprehensive range of sophisticated products. Our EPON and GPON products also reported back-to-back success in high-end overseas markets, adding Telecom Italia, PCCW of Hong Kong and Telecom Argentina to the customer list.

Industrialisation of next generation optical network transmission equipment

The next-generation optical network transmission equipment of ZTE is positioned as the "carrier of dreams and values" that provides customers with one-stop transmission solutions such as WDM/OTN, MSTP/PTN and NMS. These solutions are able to fulfill the network construction requirements of multiple levels of the carrier's network, including the backbone level, the core level and the peripheral level, as well as the requirements of telecom network upgrades and one-stop operations of carriers. In 2008, the project continued to achieve satisfactory progress.

Certain new products were successfully launched following completion of the industrialisation process and gained wide approval among industry users, such as the "2008 BBWF Metro Network Technologies and Services Award" won by our "E-MSTP Embedded RPR Solution".

Currently, ZTE optical networks are being extensively marketed in about 90 national/regional markets in Europe, Asia Pacific, Latin America, Africa and the Middle East and employed by over 250 carriers. With the ongoing advance of the "ZTE next-generation optical network transmission equipment industrialization project", ZTE's market position in the optical network sector has been further reinforced. According to the report of OVUM-RHK, a world-renowned consulting agency, ZTE optical network products sustained fast growth in the global market in 2008, with steady increase in market share. As the project continues to roll on, more new products will be launched in 2009 to capture more market shares following completion of the industrialisation process.

Construction of ICT integrated business platform

The primary purpose of the ICT integrated business platform project is to develop, with the application IT and CT technological integration, an operable and manageable integrated business platform for international and domestic carriers for their provision of integrated information services to corporate customers. In 2008, the project reported satisfactory progress as carriers further efforts in the transformation of their business model. In the PRC, the platform played an important role in this transformation with successful applications in China Mobile's ADC service, China Telecom's EMA service and China Unicom's UTM service. Elsewhere, we built a national-grade data centre for Ethiopian Telecommunications providing centralised network management and security control. Mobile office services underpinned by PUSHMAIL were also launched in a number of countries.

Industrialisation of RFID systems integration

The Company owns 107 patent rights from its full range of proprietary RFID products, which are mainly related to core RFID technologies such as air interface protocol and anti-collision algorithm. The project boasts comprehensive research and development capabilities in electronic tag antenna design, reader series product development, intermediary product research and development, application software product development and radio magnetic field optimisation, covering key sections in the RFID systems integration structure including the base level (data collection), the intermediate level (transmission) and the upper level (application) of the RFID network.

With the completion of principal RFID software and hardware product development, our product sequence now comprises product series such as UHF, HF, 5.8G active power and 433M active power. Our 800M/900M ultra-high-frequency series has passed the stringent tests of the National RFID Monitoring and Testing Centre and has been listed as an approved national model of radio frequency transmission equipment, ascertaining our leadership in ultra-high-frequency products. The 5.8G active power ETC for non-stop toll ways and equipment for installation in vehicles have passed stringent tests and compatibility certification of the Transport Projects Monitoring and Testing Centre under the Ministry of Transport. It has also passed practical verifications in the inter-provincial connection and compatibility tests.

As a supplier of RFID products and applications, the project is currently conducting RFID pilot applications in the market. Apart from areas of general market concerns, such as personnel management, vehicle management, asset management and warehouse logistics, where our serialised RFID ultra-high-frequency and high-frequency products that have been employed, our RFID products have also performed strongly in non-stop toll ways, army warehouse logistics supply chain and integrated application of single-card dual-mode enterprise solutions.

(2) Significant investments using funds other than issue proceeds

In August 2008, the Company made a capital contribution of RMB200 million for equity interests in 航天科技投資控股有限公司 ("航天投資") representing 10% of the registered capital of 航天投資 (the "Investment"). The Investment was considered and approved by the Board of Director of the Company at the seventeenth meeting of the Fourth Session of the Board. For further details, please refer to the "Announcement of the Resolutions Passed at the

Seventeenth Meeting of the Fourth Session of the Board of Directors" and the "Announcement of Connected Transactions" of the Company dated 21 August 2008 and published in China Securities Journal, Securities Times and Shanghai Securities News.

In October 2008, the Company entered in an investment agreement (the "Investment Agreement") with Xi'an Hi-tech Industrial Development Park Management Committee (西安高新技術產業開發區管理委員會) (the "Park Committee") in Xi'an, pursuant to which the Park Committee agreed to the investment in and construction of "ZTE Corporation Xi'an Research and Development and Production Base" (the "Project Investment") in Xi'an Hi-tech Industrial Development Park by the Company. The Project Investment was considered and approved by the Board of Director of the Company at the Eighteenth Meeting of the Fourth Session of the Board on 6 October 2008 and the 2008 First Extraordinary General Meeting on 27 November 2008. For further details, please refer to the "Announcement of the Resolutions Passed at the Eighteenth Meeting of the Fourth Session of the Board of Directors", "Announcement on Planned External Investment" and "Announcement in respect of Resolutions of the First Extraordinary General Meeting for 2008" of the Company dated 7 October 2008 and 28 November 2008, respectively, and published in China Securities Journal, Securities Times and Shanghai Securities News.

In December 2008, the Company made a capital contribution of RMB600 million to establish Xi'an Zhongxing New Software Company Limited (西安中興新軟件有限責任公司) ("Xi'an Zhongxing New Software") as an 100%-owned subsidiary with an investment amount of RMB600 million. For further details, please refer to the "Announcement of the Resolutions Passed at the Twenty-first Meeting of the Fourth Session of the Board of Directors" and "Announcement on External Investment" of the Company dated 13 December 2008 and published in China Securities Journal, Securities Times and Shanghai Securities News.

11. There were no changes in accounting policies and accounting estimates or retrospective adjustments of accounting errors of the Group for the year.

12. Items relating to fair value measurement and the internal control systems for these items

(1) Items relating to fair value measurement

Unit: RMB in thousands

Items	Opening balance	Gains/losses arising from fair value change for the period	Accumulated fair value change dealt with in equity	Impairment charge for the period	Closing balance
Financial assets					
Including: 1. Financial assets at fair value through profit or loss	123,644	(123,644)[Note 1]	0	0	0
Including: derivative financial assets	123,644	(123,644)	0	0	0
2. Available-for-sale financial assets	0	0	0	0	0
Sub-total of financial assets	123,644	(123,644)	0	0	0
Financial liabilities [Note 2]	45,973	6,339	0	0	52,312
Investment properties	0	0	0	0	0
Productive living assets	0	0	0	0	0
Others	0	0	0	0	0
Total	**169,617**	**(117,305)**	**0**	**0**	**52,312**

Note 1: Fair-value gains/losses for the period were mainly attributable to the settlement of forward exchange contract, which resulted in the transfer of fair-value gains/losses recognised in the previous year to investment gains.

Note 2: Financial liabilities include tradable financial liabilities, financial guarantee contracts and provisions for retirement benefits.

(2) Fair value changes in items measured at fair value and their impact on the Company's profit

Financial instruments of the Company are stated at historical costs, except for a small number of derivative financial instruments which are measured at fair value based on market prices. Gains or losses arising from fair value changes in the Company's derivative financial instruments measured at fair value were subject to uncertainties relating to fluctuations in RMB-USD forward exchange rates.

(3) Internal control systems relating to fair value measurement

The Company has established a fair value measurement internal control system to be operated through collaboration of various departments under the leadership of the Chief Financial Officer. The Fair Value Measurement Internal Control Measures (《公允價值計量的內部控制辦法》) has been formulated as a complement to the "ZTE Accounting Policies" (《中興通訊會計政策》) and the "ZTE Internal Control System" (《中興通訊內部控制制度》) to regulate the application and disclosure of fair value measurements.

13. Financial assets and financial liabilities held in foreign currencies

Unit: RMB in thousands

Items	Opening balance	Gains/losses arising from fair value change for the period	Accumulated fair value change dealt with in equity	Impairment charge for the period	Closing balance
Financial assets					
Including: 1. Financial assets at fair value through profit or loss	123,644	(123,644)note 1	0	0	0
Including: derivative financial assets	123,644	(123,644)	0	0	0
2. Loans and receivables	5,375,784	2,195,157note 2	0	0	7,570,941
3. Available-for-sale financial assets	0	0	0	0	0
4. Held-to-maturity investments	0	0	0	0	0
Sub-total of financial assets	5,499,428	2,071,513	0	0	7,570,941
Financial liabilities	7,876	4,684	0	0	12,560

Note 1: Fair-value gains/losses for the period were mainly attributable to the settlement of forward exchange contract, which resulted in the transfer of fair-value gains/losses recognised in the previous year to investment gains.

Note 2: Increase in loans and receivables in foreign currency during the period.

14. The Company has not made any profit forecast or relevant undertakings.

15. The independent opinion of the Independent Directors on the use of funds by connected parties of the Company and the Company's accumulated and current guarantees for 2008 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 2008 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 the Regulation of Third-party Guarantees made by Listed Companies' (Zheng Jian Fa [2005] No. 120) and the "Notice regarding Certain Issues on the Regulation of Financial Transactions Between Listed Companies and Connected Parties and Third-party Guarantees made by Listed Companies" (Zheng Jian Fa (2003) No. 56) and are of the view that the Company has diligently implemented the relevant provisions under the Notice and have not found any matter which is in breach of the Notice.

16. Day-to-day operation of the Board of Directors

(1) During 2008, the Board of Directors of the Company convened eleven 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
11th meeting of the Fourth Session	28 January 2008	Voting in written communication	Note 1	China Securities Journal, Securities Times, Shanghai Securities News, The Standard and Hong Kong Economic Times
12th meeting of the Fourth Session	13 March 2008	Voting in written communication	14 March 2008	
13th meeting of the Fourth Session	19 March 2008	On-site meeting	20 March 2008	
14th meeting of the Fourth Session	24 April 2008	Video conference	25 April 2008	
15th meeting of the Fourth Session	17 July 2008	Voting in written communication	18 July 2008	
16th meeting of the Fourth Session	29 July 2008	Voting in written communication	30 July 2008	
17th meeting of the Fourth Session	20 August 2008	On-site meeting	21 August 2008	
18th meeting of the Fourth Session	6 October 2008	Video conference	7 October 2008	
19th meeting of the Fourth Session	23 October 2008	Video conference	24 October 2008	
20th meeting of the Fourth Session	25 November 2008	Voting in written communication	26 November 2008	
21st meeting of the Fourth Session	12 December 2008	Voting in written communication	12 December 2008	

Note 1: The eleventh meeting of the Fourth Session of the Board of Directors was convened to consider and approve the listing of the bonds cum warrants of the Company. Announcement was not required under relevant regulations.

Note 2: 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 2007 annual general meeting, the Board of Directors of the Company implemented profit distribution and capitalisation from capital reserves for 2007: namely the creation of 4 shares for every 10 shares based on the Company's total share capital of 959,521,650 shares as at 31 December 2007 and the payment of RMB2.5 for every 10 shares (including tax) in cash or an aggregate of RMB239,880,000. The total share capital of the Company shall be 1,343,330,310 shares after the implementation of the plan. The record date for dividend payment for A shares was 9 July 2008. The ex-dividend date for A shares was 10 July 2008. Bonus A shares not subject to lock-up was listed on 10 July 2008. The payment date for cash bonus dividend for A shares was 10 July 2008.

2. At the first extraordinary general meeting of the Company for 2007 held on 13 March 2007, the Board of Directors of the Company was authorised to deal with matters relating to the Phase I Share Incentive Scheme. Pursuant to such mandate, the Board of Directors of the Company effected the following:

   (a) It was approved that the aggregate amount of Subject Shares under the Phase I Share Incentive Scheme be correspondingly adjusted to 67,172,000 A shares (out of which, the 10% Reserved Subject Shares after adjustment was 6,717,200 A Shares) as a result of the implementation of the profit distribution and capitalisation from capital reserves for 2007 on 10 July 2008.

   (b) It was approved that Reserved Subject Shares under the Phase I Share Incentive Scheme of the Company be granted to key personnel who had made significant contributions to the Company.

3. At the third extraordinary general meeting of the Company for 2007 held on 16 October 2007, the Board of Directors of the Company was authorised to deal with matters relating to the bonds cum warrants. Pursuant to such mandate, the Board of Directors of the Company effected the following:

   The Company replaced the internal funds initially invested in the issue proceed investment projects with proceeds from the issue of bonds cum warrants amounting to RMB1,576,036,600.

(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" (《審計委員會工作細則》) and the "Guidelines for Work of the Audit Committee relating to the Annual Report" (《審計委員會年報工作規程》) 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. For details of the work of the Audit Committee in 2008, please refer to the section headed "II. Board of Directors" in "PART II: CORPORATE GOVERNANCE REPORT" of "VII. CORPORATE GOVERNANCE STRUCTURE" in this annual report.

2. Issue of three review opinions on the 2008 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 was of the view that: relevant accounting standards had been appropriately applied and all significant accounting systems adopted had been consistent with those adopted for 2007; key financial indicators calculated on the basis of data from the 2008 financial statements were consistent with preliminary estimates made by the Committee members based on known facts and comparison with financial indicators of 2007. 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 was of the view that the preliminary audit results of the 2008 annual report was in compliance with the new accounting standards for business enterprises 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 2008. The Audit Committee was of the view that the report was a true representation of the financial conditions of the Company in 2008 and approved the submission of the report for the review of the Board of Directors.

3. Supervision of the audit work of the accountants' firm

To ensure the conduct of auditing work in an orderly manner given the complex nature of the Company's business, the PRC and Hong Kong auditors of the Company had finalised the audit timetable for the year by November 2008 and submitted such timetable to Shenzhen CSRC in mid-January 2009 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 was 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.

4. Summary Report on the 2008 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 October 2008 to March 2009. 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 completed the full audit process and acquired sufficient and appropriate audit evidence after nearly 4 months of auditing work. 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 was 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 2008 financial report in a satisfactory manner.

5. 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 was 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 2009.

6. 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 2008, please refer to the section headed "II. Board of Directors" in "PART II: CORPORATE GOVERNANCE REPORT" of "VII. CORPORATE GOVERNANCE STRUCTURE" in this annual 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 2008 annual report of the Company is true and accurate.

17. Profit distribution or capitalisation from capital reserve

(1) Proposal for profit distribution and capitalisation from capital reserve for 2008

Net profit of the Company for the year 2008 calculated in accordance with PRC ASBEs amounted to RMB977,862,000. Profit available for distribution amounted to RMB2,395,734,000 after adding the undistributed profit of RMB1,417,872,000 carried forward at the beginning of the year. Net profit of the Company for the year 2008 calculated in accordance with HKFRSs amounted to RMB975,994,000. Profit available for distribution amounted to RMB2,399,412,000 after adding the undistributed profit of RMB1,423,418,000 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 ASBEs and that calculated in accordance with HKFRSs. Therefore the amount of profit available for distribution is RMB2,395,734,000. The proposed profit distribution and capitalisation from capital reserve for 2008 recommended by the Board of Directors of the Company is as follows:

Proposed profit distribution for 2008: RMB3 in cash for every 10 shares (including tax) or a total of RMB402,999,000, based on the Company's total share capital of 1,343,330,310 shares as at 31 December 2008.

Proposed capitalisation from capital reserve for 2008: the creation of 3 shares for every 10 shares by way of capitalisation of capital reserves, representing a total increase of 402,999,093 shares based on the Company's total share capital of 1,343,330,310 shares as at 31 December 2008.

In order to qualify for the final dividend and the bonus shares created from the capitalisation of capital reserves, H shareholders should lodge their transfer documents together with relevant share certificates with Computershare Hong Kong Investor Services Limited at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 17 April 2009.

According to the Enterprise Income Tax Law of the People's Republic of China and the Implementation Regulations for Enterprise Income Tax of the People's Republic of China which took effect on 1 January 2008, enterprise income tax is payable by non-resident enterprises in respect of income derived from the PRC at an applicable tax rate of 10% and listed issuers shall withhold such enterprise income tax on behalf of the non-resident enterprises. Cash dividend payable to H-share non-resident enterprises after the deduction of the said enterprise income tax is RMB2.7 for every 10 shares.

(2) Implementation of the cash bonus distribution policy during the reporting period

The Company's profit distribution and capitalisation from capital reserves for 2007, was implemented on 10 July 2008. For further details, please refer to the "Announcement on Profit Distribution and Capitalisation from Capital Reserves for 2007 of ZTE Corporation" dated 4 July 2008 and published in China Securities Journal, Securities Times and Shanghai Securities News.

(3) Cash distribution of the Company for the past three years

Unit: RMB in thousands

Year	Cash distribution amount (tax inclusive)	Net profit in the consolidated statements attributable to shareholders of the listed company	Cash distribution as a percentage of net profit in the consolidated statements attributable to shareholders of the listed company (%)
2005	239,880	1,194,343	20.08
2006	143,928	807,353	17.83
2007	239,880	1,252,158	19.16

18. 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 2009

1. Business outlook for 2009

2009 is set to be a year of extreme importance for the Group, as it embraces new development opportunities presented by the official issuance of 3G licenses in the PRC. Meanwhile, the Group's international business expansion will face challenges amid the aggravating financial crisis.

In 2009, the Company will further enhance its project management through persistent implementation of the cost-leadership strategy and enhancement of financing capabilities as well as market-driven research and development capabilities. In terms of product planning, product output, competition strategies and network optimisation capabilities, we intend to capitalise on our capabilities in integrated solutions based on multiple products. Meanwhile, we will continue to improve our human resource management and further enhance our overall efficiency.

2. Risk exposure

(1) 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.

(2) 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 actual conditions of the Company's operations 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.

(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) Country risks

Given recent developments in the global economy and financial market, the Group will continue to be exposed to political risks, sovereignty risks and transfer risks in countries where its projects are operated and a very high level of operational and risk control capabilities is required.

(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 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 2008 are set out in note 31 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 39 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 prorate 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 37 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

	2008	2007
Profit and loss items		
Operating revenue		
Carriers' networks	**28,963.8**	22,567.5
Handsets	**9,692.6**	7,645.1
Telecommunication software systems, services and other products	**5,637.0**	4,564.6
Total revenue	**44,293.4**	34,777.2
Cost of sales	**(29,911.5)**	(23,415.0)
Gross profit	**14,381.9**	11,362.2
Other income and revenue	**1,295.7**	1,028.0
Research and development costs	**(3,994.1)**	(3,210.4)
Selling and distribution costs	**(5,401.0)**	(4,531.5)
Administrative expenses	**(2,190.0)**	(1,718.2)
Other expenses	**(1,159.7)**	(898.2)
Profit from operating activities	**2,932.8**	2,031.9
Finance costs	**(690.2)**	(328.3)
Share of profit and loss of jointly controlled entities and associates	**19.9**	24.1
Profit before tax	**2,262.5**	1,727.7
Tax	**(350.6)**	(276.2)
Profit before minority interests	**1,911.9**	1,451.5
Attributable to:		
Minority interests	**(251.7)**	(199.3)
Attributable to:		
Shareholders of parent company	**1,660.2**	1,252.2
Dividend	**403.0**	239.9
Earnings per share — Basic	**RMB1.24**	RMB0.93
— Diluted	**RMB1.20**	RMB0.92

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

	2008		2007	
Product segment	**Revenue**	**As a percentage of total revenue**	Revenue	As a percentage of total revenue
Carrier's networks	**28,963.8**	**65.4%**	22,567.5	64.9%
Handsets	**9,692.6**	**21.9%**	7,645.1	22.0%
Telecommunication software systems, services and other products	**5,637.0**	**12.7%**	4,564.6	13.1%
Total	**44,293.4**	**100.0%**	34,777.2	100.0%

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

Unit: RMB in millions

	2008		2007	
Region	**Revenue**	**As a percentage of total revenue**	Revenue	As a percentage of total revenue
The PRC	**17,466.4**	**39.4%**	14,686.6	42.2%
Asia (excluding the PRC)	**10,432.9**	**23.6%**	9,679.4	27.8%
Africa	**9,311.1**	**21.0%**	5,484.8	15.8%
Other regions	**7,083.0**	**16.0%**	4,926.4	14.2%
Total	**44,293.4**	**100.0%**	34,777.2	100.0%

The Group's operating revenue increased to RMB44,293.4 million in 2008, a 27.4% growth compared to last year. Operating revenue from international sales continued to register growth, increasing by 33.5% to RMB26,827.0 million. Analysed by product, revenue from the carriers' networks, handsets and telecommunication software systems, services and other products all recorded year-on-year growth in varying degrees.

The growth in operating revenue from the Group's carriers' networks segment was attributable mainly to the growth in sales of wireless networks representing mainly international sales of GSM systems and domestic sales of CDMA systems, as well as the growth in sales of fixed-line networks in the international market.

The increase in operating revenue from the Group's handset product segment was driven mainly by sales growth of GSM, CDMA and 3G handsets in the international market.

The growth in operating revenue from the Group's telecommunications software systems, services and other products increased mainly as a result of increased sales of network terminals, services and materials.

COST OF SALES AND GROSS PROFIT

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

Unit: RMB in millions

	2008		2007	
Product segment	**Cost of sales**	**As a percentage of revenue from the product segment**	Cost of sales	As a percentage of revenue from the product segment
Carriers' networks	**18,589.2**	**64.2%**	13,624.8	60.4%
Handsets	**7,394.1**	**76.3%**	5,985.9	78.3%
Telecommunication software systems, services and other products	**3,928.2**	**69.7%**	3,804.3	83.3%
Total	**29,911.5**	**67.5%**	23,415.0	67.3%

Unit: RMB in millions

	2008		2007	
Product segment	**Gross profit**	**Gross profit margin**	Gross profit	Gross profit margin
Carriers' networks	**10,374.6**	**35.8%**	8,942.7	39.6%
Handsets	**2,298.5**	**23.7%**	1,659.2	21.7%
Telecommunication software systems, services and other products	**1,708.8**	**30.3%**	760.3	16.7%
Total	**14,381.9**	**32.5%**	11,362.1	32.7%

Cost of sales of the Group for 2008 increased 27.7% as compared to last year to RMB29,911.5 million. The Group's overall gross profit margin of 32.5%, largely unchanged from last year, reflected mainly improved gross profit margin for handsets and telecommunications software systems, services and other products coupled with lower gross profit margin for carriers' networks.

Cost of sales for the Group's carriers' networks increased by 36.4% to RMB18,589.2 million, while the segment's gross profit margin was 35.8% compared to 39.6% last year. The gross profit margin for carriers' networks was lower in tandem with weakened gross profit margin for CDMA and WCDMA systems.

Cost of sales for the Group's handset products amounted to RMB7,394.1 million, increasing by 23.5% compared to last year. Gross profit margin for the Group's handsets segment improved to 23.7% from 21.7% last year, mainly in tandem with increased weighting of international sales of 3G handsets and higher gross profit margin for CDMA handsets in the international market.

Cost of sales for the Group's telecommunications software systems, services and other products amounted to RMB3,928.2million, increasing by 3.3% compared to last year, with a gross profit margin of 30.3%, compared to 16.7% for last year. The increase in gross profit margin for the segment reflected primarily the increase in gross profit margin for network terminals and services.

OTHER INCOME AND REVENUE

Other income and revenue of the Group for 2008 amounted to RMB1,295.7 million, representing a 26.0% growth compared to RMB1,028.0 million for 2007. The increase reflected primarily growth in VAT rebates for software products.

RESEARCH AND DEVELOPMENT COSTS

The Group's research and development costs for 2008 increased by 24.4% to RMB3,994.1 million from RMB3,210.4 million for 2007, and were little changed as a percentage of operating revenue at 9.0% (2007: 9.2%).

SELLING AND DISTRIBUTION COSTS

The Group's selling and distribution costs for 2008 increased by 19.2% to RMB5,401.0 million from RMB4,531.5 million for 2007, but decreased from 13.0% to 12.2% as a percentage of operating revenue. The decrease of selling and distribution costs as a percentage of operating revenue despite growth in gross amount was attributable mainly to economies of scale achieved by the Company.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group for 2008 increased by 27.5% to RMB2,190.0 million, as compared to RMB1,718.2 million for 2007, but were little changed from 2007 as a percentage of operating revenue at 4.9%.

OTHER EXPENSES

The Group recorded other operating expenses of RMB1,159.7 million for 2008, increasing by 29.1% as compared to RMB898.2 million for 2007. This was primarily the result of an increase in exchange losses.

Profit from operating activities

The Group's profit from operating activities for 2008 increased by 44.3% to RMB2,932.8 million from RMB2,031.9 million for 2007, while the operating profit margin grew from 5.8% for 2007 to 6.6% for 2008, primarily as a result of expanded business scale.

Finance costs

Finance costs of the Group for 2008 increased by 110% to RMB690.2 million from RMB328.3 million for 2007 primarily as a result of increased interest expenses relating to bank loans and factoring operations.

Tax

The Group's income tax expense for 2008 was RMB350.6 million, 26.9% higher than RMB276.2 million for 2007, reflecting mainly a 31.0% growth in profit before tax for 2008 as compared to 2007. The effective tax rate for 2008 was slightly lower at 15.5%, compared to 16.0% for 2007.

Profit attributable to minority interests

The Group's minority interests for 2008 amounted to RMB251.7 million, which was 26.3% higher as compared to RMB199.3 million for 2007. Minority interests decreased from 13.7% in 2007 to 13.2% in 2008 as a percentage of profit before minority interests, reflecting mainly 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 2008 was 40.8% (or 31.4% excluding the effect of the bonds cum warrants), up 7.3 percentage points from 33.5% in 2007 and reflecting mainly to the issue of bonds cum warrants.

Liquidity and capital resources

In 2008, 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 2008 amounted to RMB11,344.2 million.

Cash flow data

Unit: RMB in millions

	2008	2007
Net cash inflow/(outflow) from operating activities	**2,686.6**	(552.1)
Net cash outflow from investing activities	**(1,856.9)**	(1,655.7)
Net cash inflow from financing activities	**4,473.2**	4,366.9
Net increase in cash and cash equivalents	**5,302.9**	2,159.1
Cash and cash equivalents at year-end	**11,344.2**	6,309.7

Operating activities

The Group had a net cash inflow from operating activities of RMB2,686.6 million for 2008 compared to RMB552.1 million for 2007, reflecting year-on-year increase of cash outflow for purchases and the provision of labour by RMB5,747.2 million mainly as a result of expanded sales, increase of cash outflow for payments made to and on behalf of employees by RMB1,382.2 million and increase of tax payments by RMB785.3 million; coupled with increase of cash inflow from operating revenue by approximately RMB10,930.7 million and increase of cash inflow from tax rebates by approximately RMB1,323.4 million.

Investing activities

The net cash outflow from the Group's investment activities for 2008 was RMB1,856.9 million compared to a net cash outflow of RMB1,655.7 million for 2007. The cash outlay was mainly used in the cash payment of RMB1,229.6 million for the acquisition of properties, plant and equipment.

Financing activities

The Group's a net cash inflow from financing activities for 2008 was RMB4,473.2 million (2007: RMB4,366.9 million), comprising mainly RMB3,961.4 million in cash received from the issue of bonds cum warrants.

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	**2008**	2007
Purchases of fixed assets and construction in progress payments	**1,229.6**	1,494.3

The Group's capital expenditure in 2008 amounting to RMB1,229.6 million was mainly used for the completion of construction work at ZTE Industrial Park, equipment installation and the purchase of machinery and equipment.

INDEBTEDNESS

Unit: RMB in millions

	As at 31 December	
Items	**2008**	2007
Secured bank loans	**2,658.5**	866.4
Unsecured bank loans	**4,298.5**	5,622.2

Unit: RMB in millions

	As at 31 December	
Items	**2008**	2007
Short-term bank loans	**5,664.5**	4,403.4
Long-term bank loans	**1,292.5**	2,085.2

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 2008 increased mainly as a result of the borrowing of bank loans to provide additional working capital.

CONTRACTUAL OBLIGATIONS

Unit: RMB in millions

	As at 31 December 2008			
Items	**Total**	**Less than one year**	**Two to five years**	**More than five years**
Bank loans	6,957.0	5,664.5	1,292.5	—
Operating lease obligations	447.8	264.4	182.4	1.0

CONTINGENT LIABILITIES

Unit: RMB in millions

	As at December	
Items	**2008**	2007
Factored trade receivables	**—**	—
Guarantees given to banks in respect of bank loans granted to third parties	**—**	—
Guarantees given to banks in respect of performance bonds	**8,245.9**	5,093.5
Total	**8,245.9**	5,093.5

CAPITAL COMMITMENTS

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

Unit: RMB in millions

	As at December	
Items	**2008**	2007
Land and buildings:		
Contracted, but not provided for	**301.4**	582.3
Investment in an associate:		
Contracted, but not provided for	**265.7**	255.2
Land and buildings:		
Authorised, but not contracted	**5,875.9**	—

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 2008 are set out in notes 18, 19 and 20 to the financial statements prepared in accordance with HKFRSs in the 2008 annual report of the Company.

PROSPECTS FOR NEW BUSINESS

Details of the prospects for new business of the Group are set out in the "Chairman's Statement" in the 2008 annual report of the Company.

EMPLOYEES

Details of the number of employees, remuneration, remuneration policy, bonus and training programs of the Group as at 31 December 2008 are set out in the sections headed "Directors, Supervisors, Senior Management and Employees" and "Corporate Governance Structure" in the 2008 annual report of the Company.

CHARGES ON ASSETS

Details of charges on the Group's assets as at 31 December 2008 are set out in note 31 to the financial statements prepared under HKFRSs in the 2008 annual report of the Company.

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 2008 are set out section headed "Report of the Board of Directors" in the 2008 annual report of the Company.

Details of future plans for material investments or acquisition of capital assets are set out section headed "Report of the Board of Directors" in the 2008 annual report of the Company.

MARKET RISKS

For details of the Group's exposure to interest rate risks and foreign exchange risks, please refer to the section headed "2. Risk exposure" under the section "(III) Business outlook and risk exposure for 2009" in "IX. REPORT OF THE BOARD OF DIRECTORS" of the 2008 annual report of the Company.

REPORT OF THE SUPERVISORY COMMITTEE

(I) SUPERVISORY COMMITTEE MEETINGS

The Supervisory Committee held seven meetings in 2008, the details of which are as follows:

1. The seventh meeting of the fourth session of the Supervisory Committee of the Company was held on 13 March 2008, at which the "Resolution of the Company on the Replacement of Internal Funds Previously Invested in Issue Proceed Investment Projects with Proceeds from the Issue of Bonds cum Warrants" was considered and approved. The announcement of the resolution of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News on 14 March 2008.

2. The eighth meeting of the fourth session of the Supervisory Committee of the Company was held on 19 March 2008, at which the "2007 report on the work of the Supervisory Committee", "Full Text and Summary of the 2007 Annual Report and the Results Announcement of the Company", "the Final Financial Accounts of the Company for 2007", ""Resolution on Significant Asset Impairment Provision for 2007 by the Company", "Report of the Audit Committee on the 2007 Audit of the Company Performed by the PRC and Hong Kong Auditors", "Resolution of the Company on Determining the Audit Fees of the PRC Auditors and the Hong Kong Auditors of the Company for 2007", "Resolution of the Company on the Transfer of the Entire 100% Interest in ZTE Energy (Cayman) Held by Wholly-owned Subsidiary ZTE HK", "Report on the Proposed Profit Distribution and Capitalisation from Capital Reserve of the Company for 2007", "Resolution of the Company on the Proposed Ongoing Connected Transaction Framework Agreement for 2008", "Resolutions with respect to the Proposed Application by the Company for Composite Credit Facilities for the Six Months ended 30 June 2008" and the "Resolution on the Appointment of the PRC Auditors and the Hong Kong Auditors of the Company for 2008" were considered and approved. The announcement of the resolutions of the Supervisory Committee was published in China Securities Journal, Securities Times, and Shanghai Securities News on 20 March 2008.

3. The ninth meeting of the fourth session of the Supervisory Committee of the Company was held on 24 April 2008, at which the "Report on the Preparation of the 2008 First Quarterly Report of the Company" and the "Resolution of the Company on the Retrospective Adjustments to the 2007 First Quarterly Financial Statements" was considered and approved. The announcement of the resolutions of the Supervisory Committee was published in China Securities Journal, Securities Times, and Shanghai Securities News on 25 April 2008.

4. The tenth meeting of the fourth session of the Supervisory Committee of the Company was held on 29 July 2008, at which the "Resolution of the Company on the 'Self-Inspection Report on Fund Appropriation by the Controller Shareholder and Its Connected Parties'" was considered and approved. The announcement of the resolution of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News on 30 July 2008.

5. The eleventh meeting of the fourth session of the Supervisory Committee of the Company was held on 20 August 2008, at which the "Full Text and Summary of the 2008 Interim Report and the Results Announcement of the Company", "2008 Interim Final Financial Accounts", "Resolutions of the Company with respect to the Supplementary Application for Composite Credit Facilities for the six months ended 31 December 2008", "Resolution of the Company on the Continued Purchase of 'Liability Insurance for Directors, Supervisors and Senior Management'" and "Resolution of the Company on the Equity Investment in an Aeropsace Technology Investment Holding Company with Limited Liability" were considered and approved. The announcement of the resolutions of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News on 21 August 2008.

6. The twelfth meeting of the fourth session of the Supervisory Committee of the Company was held on 23 October 2008, at which the "Report on the Preparation of the 2008 Third Quarterly Report of the Company" and "Resolutions of the Company on Connected Transactions regarding the Lease of Properties" were considered and approved. The announcement of the resolutions of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News on 24 October 2008.

7. The thirteenth meeting of the fourth session of the Supervisory Committee of the Company was held on 25 November 2008, at which the "Resolution of the Company on the Adjustment to the Volume of Subject Shares and the Grant of Reserved Subject Shares to Staff under the 'Phase I Share Incentive Scheme'" and the "Resolution of the Company on the Verification of the List of Scheme Participants in respect of the Reserved Subject Shares under the 'Phase I Share Incentive Scheme'" were considered and approved. The announcement of the resolutions of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News on 26 November 2008.

(II) THE SUPERVISORY COMMITTEE HAS FURNISHED ITS OPINION ON THE COMPANY'S CONDITIONS IN 2008 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 General Meetings, the Rules of Procedure for Board of Directors' Meetings and the Rules of Procedure for Supervisory Committee Meetings and 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 have diligently performed their duties in compliance with the laws and conscientiously implemented the resolutions of the general meetings and meetings of the Board of Directors. They have not violated any laws, regulations and the Articles of Association in the performance of 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 2008 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 2008 annual report of the Company are in compliance with various requirements of regulatory authorities including the CSRC, Shenzhen Stock Exchange and the Stock Exchange of Hong Kong Limited. The 2008 financial report of the Company gives a true and accurate view of the financial position, and operating results of the Company for the year 2008.

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 between the Company and its connected parties have been conducted on an arm's length basis without compromising the interests of the Company and its shareholders.

MATERIAL MATTERS

(I) MATERIAL LITIGATION OR ARBITRATION

During the year, the Group did not incur any material litigation or arbitration. Progress during the year of litigation and arbitration proceedings of a non-material nature occurring prior to the reporting period and other litigations and arbitrations during the year were as follows:

1. In November 2005, Beijing Success Communications and Electronic Engineering Co., Ltd. ("Beijing Success") 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.

   In December 2008, the Jiangsu Provincial High Court handed down its judgment for the first trial, which ruled that: (I) RMB35 million be refunded together with fund appropriation interests accrued on such amount to Beijing Success by Yangzhou Zhongxing; (II) Losses of Yangzhou Zhongxing amounting to over RMB11.66 million be indemnified by Beijing Success; (III) the Company be jointly responsible for the aforesaid liability of Yangzhou Zhongxing. The Company filed an appeal with the Supreme People's Court after receiving the first trial judgment and is currently awaiting the second trial. Currently the Company has not made any payments of compensation pursuant to the aforesaid judgment. Based on the legal opinion furnished by lawyers engaged by the Company, the Directors are of the opinion that the aforesaid litigation will not have any material adverse impact on the financial conditions of the Group for the current period.

2. 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 USD36.45 million (approximately RMB249.12 million) by instituting overseas arbitration.

   As at the date of the publication of this report, such supplier and its lawyer had sent a letter to the arbitration court and the Company, announcing withdrawal of the claim and the case altogether, although the Company had yet to receive a formal notification from the arbitration court. Based on the legal opinion furnished by lawyers engaged by the Company, the Directors are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions of the Group for the current period.

3. In August 2005, an Indian consultant firm issued an arbitration notice to the Company to claim indemnity for a total amount of approximately USD1.714 million (approximately RMB11.71 million) in respect of advisory fees, agency fees and related damages. The consultant firm subsequently raised its total claim amount to approximately USD2.27 million (approximately RMB15.51 million).

   Arbitration of the case was conducted at an arbitration court formed by ICC in Singapore during 25-28 July 2008. The Company was represented at all arbitration sessions and is currently awaiting the final award of the arbitration court. Based on the legal opinion furnished by lawyers engaged by the Company, the Directors are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions of the Group for the current period.

4. 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 RMB15.29 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 RMB5.36 million). The Pakistanis Subsidiary appealed to the Customs Appellate Court against such demand and the case is currently pending final judgment.

Based on the legal opinion on the dispute furnished by the lawyer engaged by the Company, the Directors are of the view that the Group has sufficient documentary evidence to defend itself against such payment and that the aforesaid matter will not have any material adverse impact on the Group's financial position and operating results for the current period.

5. In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of Rs. 762.98 million (approximately RMB65.94 million). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract demanding for damages and payment of outstanding contract amounts. In February 2008, the arbitration authorities issued its award ruling that an indemnity of Rs. 328.04 million (approximately RMB28.35 million) be paid by the Company. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a counter-claim against the customer's breach of contract. Based on the legal opinion furnished by lawyers engaged by the Company, the case will likely stand a prolonged period of litigation.

   The Company will attempt every legal means to close off this case at smaller costs. The Directors are of the opinion that the aforesaid matter will not have any material adverse impact on the financial conditions of the Group for the current period.

6. In July 2008, an agent filed arbitration against the Company demanding the payment of agency fees and interests with a total amount of USD35.819 million (approximately RMB244.81 million).

   The case was heard before the South China Sub-Commission of the China International Economic and Trade Arbitration Commission during 17-19 January 2009. The Company's representatives and lawyers appointed for the case attended all arbitration sessions and the Company is currently awaiting the arbitration award. Based on the legal opinion furnished by lawyers engaged by the Company, the Directors of the Company are of the opinion that the aforesaid litigation will not have any material adverse impact on the day-to-day operation and financial conditions of the Group.

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

(II) THE GROUP WAS NOT SUBJECT TO BANKRUPTCY, REORGANISATION OR RELATED ACTIONS DURING THE REPORTING PERIOD.

(III) THE GROUP DID NOT HOLD ANY EQUITY INTERESTS OF OTHER LISTED COMPANIES OR STAKES IN FINANCIAL ENTERPRISES SUCH AS COMMERCIAL BANKS, SECURITIES COMPANIES, INSURANCE COMPANIES, TRUST COMPANIES AND FUTURES COMPANIES, NOR DID IT DEAL IN THE SHARES OF OTHER LISTED COMPANIES OR OTHERWISE ENGAGED IN SECURITIES INVESTMENT DURING THE REPORTING PERIOD.

(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) PROGRESS OF THE PHASE I SHARE INCENTIVE SCHEME OF THE COMPANY DURING THE REPORTING PERIOD

Pursuant to the "Resolution of the Company regarding the adjustment of the number of Subject Shares and granting of Reserved Subject Shares to the staff under Phase I of the Share Incentive Scheme" considered and approved at the twentieth meeting of the fourth session of the Board of Directors of the Company held on 25 November 2008, it was approved that Reserved Subject Shares under the Phase I Share Incentive Scheme would be granted by the Company to key personnel who had made significant contributions to the Company (hereinafter the "Grant"). Subscription amounts for the Subject Shares were received from the Scheme participants for the Grant during the period from 26 November to 31 December 2008. Such proceeds would subsequently be applied as additional working capital of the Company. The number of Subject Shares under the Phase I Share Incentive Scheme of the Company was adjusted according to the Company's profit distribution and capitalisation from capital reserve for 2007. For details please refer to the "Announcement of the Resolutions passed at the Twentieth Meeting of the Fourth Session of the Board of Directors" of the Company.

The Phase I Share Incentive Scheme of the Company was under normal implementation during the reporting period. The impact of the Phase I Share Incentive Scheme of the Company on the Company's financial conditions and operating results for the reporting period and future periods is discussed in further detail in Note III.21 to the financial statements prepared under PRC ASBEs and Note 38 to the financial statements prepared under HKFRSs.

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

1. Overview of 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 amounting to RMB4 billion in total on 30 January 2008. The bonds are irrevocably and jointly guaranteed by China Development Bank for an amount of RMB4 billion in respect of bond principal and interest, default payments, indemnities and transaction costs related to 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.

Holders 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 subscribed 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 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.

2. Adjustments to the conversion price and latest conversion price as adjusted

On 10 July 2008, the Company's plans for profit distribution and capitalisation from capital reserve for 2007 were implemented and the exercise price and ratio of the warrant 中興ZXC1 were adjusted to RMB55.582 and 1:0.703, respectively.

3. There was no conversion, redemption or cancellation of the Bonds cum Warrants of the Company.

4. Top Ten Bond Holders and Their Holdings

As at 31 December 2008, the Top ten bond holders of the Company were as follows:

No.	Name of bond holder	Number of bonds held	Bond holding ratio (%)
1	New China Life Insurance Company Limited	7,991,671	19.98
2	Taikang Life Insurance Co., Ltd.	3,655,350	9.14
3	Petroleum Finance Company Limited	2,529,835	6.32
4	Sino Life Insurance Co., Ltd. — Traditional — General Insurance Products	2,422,890	6.06
5	Shenzhen Ping An Life Insurance Company (深圳平安人壽保險公司)	2,200,013	5.50
6	Ping An Life Insurance Company of China, Ltd.	1,737,880	4.34
7	PICC Health Insurance Company Limited — Traditional — General Insurance Products	1,400,000	3.50
8	China Pacific Insurance (Group) Coo., Ltd.	1,286,327	3.22
9	Agricultural Bank of China — Changsheng Tongde Focused Growth Stock Fund	881,995	2.20
10	China Life Insurance Company Limited — Dividend — Individual dividend — 005L — FH002 Shen	838,825	2.10

5. There was no significant change in the profitability, asset conditions and credit standing of National Development Bank, the guarantor for the Bonds cum Warrants of the Company.

6. Liabilities and credit rating changes of the Company and cash arrangements for debt repayments in future years.

During the reporting period, the Company's gearing ratio was 70.15% according to the financial statements prepared under PRC ASBEs and there was no change in the Company's credit rating. The Bonds cum Warrants of the Company have a 5-year life from the date of issuance. Interest is payable annually with the interest payment date falling on the anniversary of the issuance of the Bonds cum Warrants. The Company will pay the interest for the current year within 5 business days following (and inclusive of) the interest payment date. All bonds will be redeemed by the Company within 5 trading days following the maturity of the current bonds in issue, at face value plus interest accruable for the final year.

7. Other information

On 27 February 2008, the Company entered into the "Agreement for Tripartite Supervision of Issue Proceeds" with National Development Bank, Shenzhen Branch and Guotai Junan Securities Co., Ltd. The "Resolution of the Company on the Replacement of Internal Funds Previously Invested in Issue Proceed Investment Projects with Proceeds from the Issue of Bonds cum Warrants" was passed at the twelfth meeting of the fourth session of the Board of Directors of the Company held on 13 March 2008. On 14 July 2008, the Company received the "Notice of Replacement of Sponsor's Representative" from Guotai Junan Securities Co., Ltd., the Company's sponsor in respect of the issue of Bonds cum Warrants. The Company published the "Announcement of Interest Payment for '"中興債1'" on 17 January 2009 and bond interests with a total amount of RMB32,000,000 were paid on 2 February 2009. Details of the aforesaid matters have been disclosed in China Securities Journal, Securities Times, Shanghai Securities News and http://www.cninfo.com.cn.

For details of the use of proceeds from the Bonds cum Warrants of the Company and the progress of projects using such funds, please refer to the section headed "10 (1) Use of proceeds" under "IX. Report of the Board of Directors" of this annual report.

(VII) APPROPRIATION AND REPAYMENT OF NON-OPERATING FUNDS BY CONTROLLING SHAREHOLDER AND ITS CONNECTED PARTIES

1. There was no appropriation and repayment of non-operating funds of the Company by the controlling shareholder and its connected parties.

2. Statement on fund appropriation issued by Ernst & Young

The "Statement on Amounts Receivable from the the Controlling Shareholder and Other Connected Parties by ZTE Corporation" issued by Ernst & Young Hua Ming was set out in an announcement published by the Company on 20 March 2009 on the website designated for information disclosure.

(VIII) 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:

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 2008 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 "Announcement Regarding Connected Transactions", "Announcement Regarding 2008 Ongoing Connected Transactions (as defined in the Rules Governing the Listing of Stocks on Shenzhen Stock Exchange)" and "Announcement Regarding Connected Transactions" published by the Company on 19 April 2007, 20 March 2008 and 24 October 2008 respectively in China Securities Journal, Securities Times and Shanghai Securities News.

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 2008 (Excluding VAT) (RMB10,000)	As a percentage of transactions in the same classification	Settlement	Whether different from estimated conditions
Purchase of raw materials	ZTE Kangxun Telecom Company, Limited	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited and subsidiaries Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited, Shenzhen Zhongxing Xinyu FPC Company, Limited, Zhongxing Xinzhou Complete Equipment Co., Ltd.	Various products such as cabinets, cases, distribution frames, soft circuit boards and shelters	Consistent with market prices (as per contract)	Cabinets: RMB1-RMB31,000 per unit; Cases: RMB1-RMB17,000 per unit depending on level of sophistication; Distribution frames: RMB2-RMB300,000 per unit depending on level of sophistication and functional features; Soft circuit boards: RMB2-RMB50 per unit depending on measurement, technical parameters and functional features; Shelter: RMB20,000-RMB100,000 per unit, depending on measurement, materials used and configuration.	78,018.33	3.19%	Banker's acceptance bill	No
		Shenzhen Zhongxing WXT Equipment Company, Ltd.	Various products such as IC, connectors, optical devices, modules and other ancillary equipment	Consistent with market prices (as per contract)	IC: RMB100-RMB1,000 per unit depending on brand, capacity and technical parameters; connectors: RMB2-RMB120 per unit depending on technical parameters and functional features; Optical devices: RMB120-RMB17,500 per unit depending on technical parameters and functional features.	5,984.69	0.24%	Banker's acceptance bill	No
		Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Various products such as communications antennas	Consistent with market prices (as per contract)	Communication antenna: RMB320-RMB2,500 per piece depending on technical parameters and functional features.	22,109.63	0.90%	Banker's acceptance bill	No
Property leasing	ZTE Corporation and majority-owned subsidiary Chengdu Zhongxing Software Company, Limited	Zhongxingxin (lessor)	Property located at No. 800 Tianfu Avenue Central, Chengdu, Sichuan with a leased area of 19,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB40/sq. m. (property management undertaken by ZTE and no management fees are payable)	662.96	1.16%	Banker's acceptance bill	No
	ZTE Corporation	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)	2,190.50	4.06%	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. (property management undertaken by ZTE and no management fees are payable)	3,314.26	6.15%	Banker's acceptance bill	No
		Chongqing Zhongxing Development (lessor)	Property located at No.3 Xing Guang Wu Road, North New District, Chongqing with an intended leased area of 20,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB30/sq. m. (property management undertaken by the Company and no management fees are payable)	85.8	0.16%	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 RMB248,000.

The transfer of 100% interests in ZTE Energy (Cayman) Company Limited ("ZTE Cayman Energy"), a wholly-owned subsidiary of ZTE HK to Zhongxing Energy Company Limited, a connected party, for a consideration of USD4.45 million was considered and passed at the thirteenth meeting of the Fourth Session of the Board of Directors of the Company held on 19 March 2008 (for details please refer to the "Announcement on Connected Transactions" and the "Announcement on the Progress of Connected Transactions" of the Company dated 20 March 2008 and 15 May 2008,respectively.

In August 2008, the Company made a capital contribution of RMB200 million for equity interests in 航天投資. For further details, please refer to Section 10.(2) headed "Investments using funds other than issue proceeds" under "IX. Report of the Board of Directors" of this report.

(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. The Company's other subsidiary Ruide holds a 83.3% interest in the capital of Hongde, while the remaining 16.7% interest is held by a director and individual shareholder of Hongde. Therefore, the Company indirectly holds more than 83.3% of the voting shares of Hongde through 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 Zhongxing Xindi holds an approximately 23% interest. The remaining approximately 19.5% interest in Ruide is held by a director and individual shareholder 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 2008:

Approximately RMB31,848,000

- 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 2008:

Approximately RMB325,287,000

- 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 in 2008:

Approximately RMB19,000

- 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 in 2008:

Approximately RMB256,689,000

- 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 in 2008:

Approximately RMB780,183,000

- 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 continuing 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 continuing 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.

(IX) 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.

(X) 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 RMB10,361,900)	Assurance	3 years	No	No
Benin Telecoms S.A. (Note 2)	28 June 2007	USD3 million	Assurance	6.5 years	No	No
Total amount guaranteed during the year			0			
Total balance of amount guaranteed at the end of the year (A)			RMB80,865,700			
Guarantees provided in favour of subsidiaries						
Total amount guaranteed in favour of subsidiaries during the year (Note 3)						USD50,000,000
Total amount guaranteed among subsidiaries during the year						RMB38,192,000
Total balance of amount guaranteed in favour of subsidiaries at the end of the year (B)						USD61,405,500 RMB51,473,300
Total amount guaranteed by the Company (including guarantees in favour of subsidiaries)						
Total guaranteed amount (A+B)						RMB531,517,200
Total guaranteed amount as a percentage of net assets of the Company at the end of the year						3.50%
of which:						
Amounts of guarantees provided in favour of shareholders, effective 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 4) (D)						USD11,405,500
Amount of total guarantee exceeding 50% of net assets (E)						0
Aggregate amount of the three guarantee amounts stated above (C+D+E)						USD11,405,500

Note 1: Guarantee in favour of United Telecoms Limited of India provided by ZTE HK, 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 HK, 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 HK is guaranteed by the Company. In effect of the aforesaid two guarantees, ZTE is the ultimate guarantor and Benin Telecoms is the ultimate party being guaranteed, for an amount of USD3 million. As the gearing ratio of Benin Telecoms was in excess of 70%, the aforesaid guarantee was subject to consideration and approval by the Board of Directors and the general meeting of the Company in accordance with requirements of relevant laws and regulations.

Note 3: Guarantee provided by the Company in favour of ZTE HK, a wholly-owned subsidiary, in respect of a USD50 million banking credit facility granted to ZTE HK, as approved at the tenth meeting of the fourth session of the Board of Directors of the Company. ZTE HK utilised the facility twice in March 2008 and May 2008, respectively.

Note 4: 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 5: Guaranteed amounts denominated in Indian Rupee are translated at the exchange rate of 1 Indian Rupee to RMB0.14017 (being the book exchange rate of the Company on 31 December 2008). Guaranteed amounts denominated in US dollars are translated at the exchange rate of USD1 to RMB6.8346 (being the book exchange of the Company on 31 December 2008).

Note 6: 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 RMB1.80 million to the Company, and an amount of RMB1.70 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. Progress during the reporting period of contracts signed during or before the reporting period

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, Shanghai Securities News	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		Fully performed
3	Amendment of the 2006-2007 Chip Purchase Framework Agreement signed in April 2006 with QUALCOMM			Fully performed
4	GSM Phase II project contract with Ethiopian Telecommunications Corporation	20 September 2007		Under normal progress
5	Wireless Net Project ZTE Equipment Purchase Contract under China Telecom Mobile Network Construction (Phase 1, 2008) with China Telecommunications Corporation	18 November 2008		Under normal progress
6	A series of contracts with respect to Business Net under China Telecom Mobile Network Construction (Phase 1, 2008) with China Telecommunications Corporation	18 November 2008		Under normal progress
7	Series of contracts in relation to the purchase of core network equipment under China Telecom Mobile Network Construction (Phase 1, 2008) and the purchase of Integrated Service Provision Platform (ISPP) equipment for China Telecom Mobile Network Construction (Phase 1, 2008)	4 December 2008		Under normal progress

(XI) 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 “Table of changes in shares subject to lock-up” in “V. CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS” in this report.

The above undertakings had been 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.**

3. **There was no additional undertaking given by shareholders of the Company holding more than 5% in 2008 in respect of shares subject to lock-up**

(XII) APPOINTMENT OF AUDITORS

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

(XIII) 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	March 2008	2007 annual results	Analysts and investors	2007 annual report	Published announcements
	Shenzhen	March 2008	Analysts' meeting	Analysts and investors	Day-to-day operations of the Company	Published announcements
	Shenzhen	April 2008	Teleconference	Analysts and investors	2008 first quarterly report	Published announcements
	Shenzhen	August 2008	Teleconference	Analysts and investors	2008 interim report	Published announcements
	Beijing	September 2008	Roadshow	Analysts and investors	Day-to-day operations of the Company	Published announcements
	Shenzhen	October 2008	Teleconference	Analysts and investors	Day-to-day operations of the Company	Published announcements
	Hong Kong	November 2008	Roadshow	Analysts and investors	Day-to-day operations of the Company	Published announcements
External meetings	Shenzhen	March 2008	Guotai Junan presentation	Customers of Guotai Junan	Day-to-day operations of the Company	Published announcements
	Shenzhen	March 2008	Guangfa Securities presentation	Customers of Guangfa Securities	Day-to-day operations of the Company	Published announcements
	Hong Kong	April 2008	Credit Suisse presentation	Customers of Credit Suisse	Day-to-day operations of the Company	Published announcements
	Hong Kong	May 2008	Citibank presentation	Customers of Citibank	Day-to-day operations of the Company	Published announcements
	Beijing	June 2008	CITIC Securities presentation	Customers of CITIC Securities	Day-to-day operations of the Company	Published announcements
	Shenzhen	June 2008	China Jianyin Investment Securities presentation	Customers of China Jianyin Investment Securities	Day-to-day operations of the Company	Published announcements
	Shanghai	July 2008	Everbright Securities presentation	Customers of Everbright Securities	Day-to-day operations of the Company	Published announcements
	Hong Kong	November 2008	JPMorgan presentation	Customers of JPMorgan	Day-to-day operations of the Company	Published announcements
	Beijing	November 2008	Shenyin Wanguo Securities presentation	Customers of Shenyin Wanguo Securities	Day-to-day operations of the Company	Published announcements
	Nanning	December 2008	CITIC Securities presentation	Customers of CITIC Securities	Day-to-day operations of the Company	Published announcements
	Haikou	December 2008	Guotai Junan presentation	Customers of Guotai Junan	Day-to-day operations of the Company	Published announcements
	Shenzhen	December 2008	China Jianyin Investment Securities presentation	Customers of China Jianyin Investment Securities	Day-to-day operations of the Company	Published announcements

Nature	Location	Time	Mode	Audience received	Contents of discussion	Materials furnished
Company visits by analysts	Overseas investors					
	Company	2008	Verbal	Merrill Lynch Securities, Lehman Brothers, Brummer & Partners, Prudential, American Century, Goldman Sachs Gao Hua, TB Alternatives Assets, Acre-asset, Matthews International Capital Management, ING Investment Management, Treasury Asia, GE Assets Management, Cantillon Capital World Investors, UBS, Daiwa Securities, Yuanta Securities, Citadel Investment Group, CLSA, Montpelier, JPMorgan, BNP, Delaware Investments, Piper Jaffray, Landowne, Asia Pacific Equity Research, Deutsche Bank, Rexiter, Fidelity, Old Mutual Asset Manager (UK), DWS, Sumitomo Mitsui Asset Management, Citibank, Mainfirst, Nomura Securities, BOCI, Asian Century	Day-to-day operations of the Company	Published announcements
	Domestic investors					
	Company	2008	Verbal	Invesco Great Wall, China Jianyin Investment Securities, New China Assets Management, United Securities, SYWG BNP Paribas, Hua An Fund, Ping An Assets Management, Shenyin Wanguo Securities, CICC Securities, Chang Xin Asset Management, China Merchants Fund, PICC Asset Management, Zhongtian Securities, ABCCA Fund, HSBC Jintrust, China Life Insurance Asset Management, Yimin Asset Management, Lombarda China, BoCom-Schroders, Everbright Pramerica, CITIC Funds, Industrial Fund Management, CCB Principal Asset Management, Donghai Securities, Minzu Securities, Cinda Securities, Huatai Securities, CICC, Guotai Junan, Jiashi Fund, Shanghai Fareast Securities, Gansu Securities, First Shanghai, Zhonghai Fund, Ping An Assets Management, China AMC Fund, Central China Securities, China International Fund Management	Day-to-day operations of the Company	Published announcements

(XIV) 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.

(XV) SIGNIFICANT ASSET IMPAIRMENT PROVISION

In accordance with relevant provisions of Accounting Standards No. 22 (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 RMB149 million and RMB115 million, respectively, in respect of trade receivables due from two international customers facing difficulties to operate as an ongoing concern under the financial crisis. 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 RMB209 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.

(XVI) SIGNIFICANT EVENTS

During the year, no 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 occurred to the Company.

(XVII) OTHER MATERIAL MATTERS

The Company and 11 of its majority-owned subsidiaries have been listed on the Public Notice List for National High-Tech Enterprises and awarded the "High-Tech Enterprises Certificates" following relevant assessment and examination procedures in accordance with relevant provisions of the "Administrative Measures for the Recognition of High-Tech Enterprises" (《高新技術企業認定管理辦法》) (Guo Ke Fa Huo [2008] No. 172) and the "Guidelines for the Administration of High-Tech Enterprises Recognition "(《高新技術企業認定管理工作指引》) (Guo Ke Fa Huo [2008] No. 362). For details please refer to the respective "Announcements on Matters Relating to the Recognition of High-Tech Enterprises" published by the Company on 30 October 2008 and 5 March 2009 in China Securities Journal, Securities Times and Shanghai Securities News.

(XVIII) THERE WERE NO OTHER DISCLOSABLE MATERIAL MATTERS THAT OCCURRED TO THE COMPANY AND ITS SUBSIDIARIES DURING THE YEAR AND REMAINED UNDISCLOSED.

REPORT OF THE PRC AUDITORS

Ernst & Young Hua Ming
安 永 华 明 会 计 师 事 务 所

Ernst & Young Hua Ming (2009) 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 2008, the consolidated and company income statements, statements of changes in equity and cash flow statements for the year ended 31 December 2008 and notes to the financial statements.

I. 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.

II. 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.

III. 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 2008 and the results of their operations and their cash flows for the year ended 31 December 2008.

Ernst & Young Hua Ming

Beijing, the People's Republic of China

Chinese Certified Public Accountant
Xie Feng

Chinese Certified Public Accountant
Yang Min

March 19, 2009

CONSOLIDATED BALANCE SHEET

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

Assets	Note VI	31 Dec, 2008	31 Dec, 2007 (Restated)
Current assets			
Cash on hand and at bank	1	**11,480,406**	6,483,170
Derivative financial assets	2	**–**	123,644
Bills receivable	3	**1,578,473**	1,656,258
Trade receivables	4	**9,972,495**	7,098,949
Factored trade receivables	4	**1,658,941**	153,668
Prepayments	5	**355,887**	311,362
Other receivables	6	**757,847**	689,889
Inventories	7	**8,978,036**	7,429,503
Amount due from customers for contract work	8	**7,894,010**	6,540,218
Total current assets		**42,676,095**	30,486,661
Non-current assets			
Available-for-sale financial assets	9	**251,148**	43,464
Long-term trade receivables	10	**612,008**	581,007
Factored long-term receivables	10	**753,568**	3,142,709
Long-term equity investments	11	**168,433**	137,019
Fixed assets	12	**4,103,076**	3,038,063
Construction in progress	13	**817,086**	931,090
Intangible assets	14	**589,084**	224,848
Deferred development costs	15	**476,020**	258,991
Deferred tax assets	16	**400,265**	352,210
Long-term deferred assets		**19,138**	33,494
Total non-current assets		**8,189,826**	8,742,895
TOTAL ASSETS		**50,865,921**	39,229,556

Notes on page 121 to page 207 form an integral part of these financial statements

CONSOLIDATED BALANCE SHEET (continued)

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

Liabilities and shareholders' equity	Note VI	31 Dec, 2008	31 Dec, 2007 (Restated)
Current liabilities			
Short-term loans	19	**3,882,479**	2,893,855
Bank advances on factored trade receivables	4	**1,658,941**	153,668
Derivative financial liabilities	2	**12,560**	7,876
Bills payable	20	**6,318,059**	3,946,429
Trade payables	21	**9,495,946**	7,856,240
Amount due to customers for contract work	8	**2,965,582**	1,597,314
Advances from customers	22	**1,392,862**	1,491,219
Salary and welfare payables	23	**1,443,017**	1,207,431
Taxes payable	24	**(765,040)**	(1,342,330)
Dividend payable	25	**22,750**	41,180
Other payables	27	**1,553,011**	1,348,465
Deferred income		**64,281**	101,695
Provision	26	**170,382**	126,042
Long-term loans due within one year	28	**1,782,006**	1,509,569
Total current liabilities		**29,996,836**	20,938,653
Non-current liabilities			
Long-term loans	29	**1,292,547**	2,085,229
Bank advances on factored long-term trade receivables	10	**753,568**	3,142,709
Bonds payable	30	**3,514,652**	—
Specific payables	31	**80,000**	80,000
Deferred tax liabilities	16	**5,019**	56,460
Other non-current liabilities	32	**39,752**	38,097
Total non-current liabilities		**5,685,538**	5,402,495
Total liabilities		**35,682,374**	26,341,148
Shareholders' equity			
Share capital	33	**1,343,330**	959,522
Capital reserves	34	**6,298,172**	5,807,332
Surplus reserves	35	**1,431,820**	1,364,758
Retained profits	36	**5,021,369**	3,831,231
Proposed final dividend	36	**402,999**	239,880
Foreign currency translation differences		**(248,146)**	(65,562)
Equity attributable to equity holders of the parent		**14,249,544**	12,137,161
Minority interests	37	**934,003**	751,247
Total shareholders' equity		**15,183,547**	12,888,408
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**50,865,921**	39,229,556

Notes on page 121 to page 207 form an integral part of these financial statements

The financial statements on pages 109 to 207 have been signed by:

Legal representative:	Chief Financial Officer:	Head of Finance Division:
Hou Weigui	Wei Zaisheng	Shi Chunmao

CONSOLIDATED INCOME STATEMENT

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

	Note VI	2008	2007 (Restated)
Operating revenue	38	**44,293,427**	34,777,181
Less: Operating costs	38	**29,492,530**	23,004,541
Taxes and surcharges	39	**415,854**	280,266
Selling and distribution costs		**5,312,516**	4,395,125
Administrative expenses		**2,099,715**	1,777,554
Research and development costs	15	**3,994,145**	3,210,433
Finance expenses	40	**1,308,254**	494,371
Impairment losses	41	**419,358**	789,140
Add: Gains/(losses) from changes in fair values	42	**(128,328)**	115,566
Investment income	43	**122,666**	59,437
Including: Share of profits and losses of Jointly-controlled entities and associates	43	**19,877**	24,267
Operating profit		**1,245,393**	1,000,754
Add: Non-operating income	44	**1,098,296**	906,133
Less: Non-operating expenses	44	**81,146**	179,153
Including: Loss on disposal of non-current assets		**37,154**	23,927
Total profit		**2,262,543**	1,727,734
Less: Income tax	45	**350,608**	276,283
Net profit		**1,911,935**	1,451,451
Attributable to:			
Equity holders of the parent		**1,660,199**	1,252,158
Minority interests		**251,736**	199,293
Earnings per share	46		
Basic earnings per share		**RMB1.24**	RMB0.93
Diluted earnings per share		**RMB1.20**	RMB0.92

Notes on page 121 to page 207 form an integral part of these financial statements

The financial statements on pages 109 to 207 have been signed by:

Legal representative:	Chief Financial Officer:	Head of Finance Division:
Hou Weigui	Wei Zaisheng	Shi Chunmao

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	2008								
	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
I. Current year's beginning balance	959,522	5,807,332	1,364,758	3,831,231	239,880	(65,562)	12,137,161	751,247	12,888,408
II. Changes in current year									
(1) Net profit	–	–	–	1,660,199	–	–	1,660,199	251,736	1,911,935
(2) Gains/(losses) recognized directly in equity	–	–	–	–	–	–	–	–	–
1. Issue of Bonds cum Warrants	–	580,210	–	–	–	–	580,210	–	580,210
2. Effect of changes of other equity holders' interest in invested entities by equity method	–	4,763	–	–	–	–	4,763	1,084	5,847
3. Related tax effect of items recognized directly in equity	–	–	–	–	–	–	–	–	–
4. Foreign currency translation differences	–	–	–	–	–	(182,584)	(182,584)	–	(182,584)
Sub-total of (1) and (2)	–	584,973	–	1,660,199	–	(182,584)	2,062,588	252,820	2,315,408
(3) Changes of paid-in capital									
1. Capital injection from shareholders	–	–	–	–	–	–	–	–	–
2. Equity settled share expense	–	299,551	–	–	–	–	299,551	–	299,551
3. Others	–	(9,876)	–	–	–	–	(9,876)	(19,984)	(29,860)
(4) Profit appropriation									
1. Appropriation to surplus reserves	–	–	67,062	(67,062)	–	–	–	–	–
2. Distribution to shareholders	–	–	–	–	(239,880)	–	(239,880)	(50,080)	(289,960)
3. Proposal final dividend	–	–	–	(402,999)	402,999	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–
(5) Transfer of shareholders' equity									
1. Transfer of capital reserve to share capital	383,808	(383,808)	–	–	–	–	–	–	–
2. Transfer of surplus reserves to share capital	–	–	–	–	–	–	–	–	–
3. Surplus reserves making up of losses	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–
III. Current year's ending balance	1,343,330	6,298,172	1,431,820	5,021,369	402,999	(248,146)	14,249,544	934,003	15,183,547

Notes on page 121 to page 207 form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

(Prepared under PRC ASBEs)
(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
I. Current year's beginning balance	959,522	5,509,664	1,331,059	2,852,652	143,928	(32,880)	10,763,945	561,892	11,325,837
II. Changes in current year									
(1) Net profit	–	–	–	1,252,158	–	–	1,252,158	199,293	1,451,451
(2) Gains/(losses) recognized directly in equity									
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. Foreign currency translation differences	–	–	–	–	–	(32,682)	(32,682)	(3,647)	(36,329)
Sub-total of (1) and (2)	–	–	–	1,252,158	–	(32,682)	1,219,476	195,646	1,415,122
(3) Changes of paid-in capital									
1. Capital injection from shareholders	–	–	–	–	–	–	–	17,207	17,207
2. Equity settled share expense	–	297,668	–	–	–	–	297,668	–	297,668
3. Others	–	–	–	–	–	–	–	–	–
(4) Profit appropriation									
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	–	–	–	–	–	–	–	–	–
(5) Transfer of shareholders' equity	–								
1. Transfer of capital reserve to share capital	–	–	–	–	–	–	–	–	–
2. Transfer of surplus reserves to share capital	–	–	–	–	–	–	–	–	–
3. Surplus reserves making up of losses	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–
III. Current year's ending balance	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 121 to page 207 form an integral part of these financial statements

The financial statements on pages 109 to 207 have been signed by:

Legal representative:	Chief Financial Officer:	Head of Finance Division:
Hou Weigui	Wei Zaisheng	Shi Chunmao

CONSOLIDATED CASH FLOW STATEMENT

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

	Note VI	2008	2007
1. Cash flows from operating activities			
Cash received from sale of goods or rendering services		**45,008,874**	34,078,133
Cash received from taxes returned		**3,972,631**	2,649,273
Cash received relating to other operating activities	47	**325,759**	199,881
Sub-total of cash inflow		**49,307,264**	36,927,287
Cash paid for goods and services		**30,430,667**	24,683,459
Cash paid to and on behalf of employees		**6,160,806**	4,778,567
Payments of taxes and levies		**2,515,238**	1,729,913
Cash paid relating to other operating activities	47	**6,552,640**	5,646,958
Sub-total of cash outflow		**45,659,351**	36,838,897
Net cash flows from operating activities	48	**3,647,913**	88,390
2. Cash flows from investing activities			
Cash received from sale of investments		**15,392**	26,803
Cash received from gains of investment		**89,862**	34,479
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**52,554**	18,295
Sub-total of cash inflow		**157,808**	79,577
Cash paid to acquire fixed asset, intangible assets and other long-term assets		**1,911,923**	1,777,223
Cash paid for equity investment		**233,536**	60,000
Sub-total of cash outflow		**2,145,459**	1,837,223
Net cash flow from investing activities		**(1,987,651)**	(1,757,646)
3. Cash flows from financing activities			
Cash received from investment		**43,342**	503,138
Including: Capital injected into subsidiaries by minority interests		**—**	17,207
Cash received from the issue of Bonds cum Warrants		**3,961,444**	—
Cash received from borrowings		**9,365,004**	6,981,386
Sub-total of cash inflow		**13,369,790**	7,484,524
Cash paid for debt repayments		**8,896,625**	3,117,701
Cash payments for distribution of dividends, profits and interest expenses		**830,481**	538,488
Including: Dividends paid by subsidiaries to minority interests		**—**	66,259
Sub-total of cash outflow		**9,727,106**	3,656,189
Net cash flow from financing activities		**3,642,684**	3,828,335
4. Effect of changes in foreign exchange rate on cash and cash equivalents		**(268,535)**	8,607
5. Net increase in cash and cash equivalents		**5,034,411**	2,167,686
Add: cash and cash equivalents at beginning of year		**6,309,749**	4,142,063
6. Net balance of cash and cash equivalents	49	**11,344,160**	6,309,749

Notes on page 121 to page 207 form an integral part of these financial statements

The financial statements on pages 109 to 207 have been signed by:

Legal representative:	Chief Financial Officer:	Head of Finance Division:
Hou Weigui	Wei Zaisheng	Shi Chunmao

BALANCE SHEET

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

Assets	Note XVI	31 Dec, 2008	31 Dec, 2007 (Restated)
Current assets			
Cash on hand and at bank		**8,331,272**	4,640,149
Derivative financial instruments		**—**	123,644
Bills receivable		**1,513,358**	1,599,250
Trade receivables	1	**13,186,642**	8,945,606
Factored trade receivables	1	**1,783,941**	278,668
Prepayments		**18,546**	85,165
Dividend receivable		**23,848**	184,589
Other receivables	2	**1,442,177**	1,489,362
Inventories		**5,211,017**	3,506,876
Amount due from customers for contract work		**8,038,449**	6,153,299
Total current assets		**39,549,250**	27,006,608
Non-current assets			
Available-for-sale financial assets	3	**243,198**	41,464
Long-term trade receivables	4	**1,214,038**	401,715
Factored long-term receivables	4	**753,568**	3,142,709
Long-term equity investments	5	**1,747,760**	547,970
Fixed assets		**2,608,957**	1,878,330
Construction in progress		**402,290**	817,787
Intangible assets		**479,947**	78,398
Deferred development costs		**137,915**	127,624
Deferred tax assets		**231,182**	284,230
Total non-current assets		**7,818,855**	7,320,227
TOTAL ASSETS		**47,368,105**	34,326,835

Notes on page 121 to page 207 form an integral part of these financial statements

BALANCE SHEET (continued)

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

Liability and shareholders' equity	Note XVI	31 Dec, 2008	31 Dec, 2007 (Restated)
Current liabilities			
Short-term loans		**1,273,828**	2,535,673
Bank advances on factored trade receivables	1	**1,783,941**	278,668
Derivative financial liabilities		**12,560**	—
Bills payable		**6,901,568**	3,818,010
Trade payables		**12,582,726**	8,616,400
Amount due to customers for contract work		**2,408,455**	472,653
Advances from customers		**1,640,192**	1,502,276
Salary and welfare payables		**596,515**	516,807
Taxes payable		**(993,777)**	(1,056,962)
Dividend payable		**10**	500
Other payables and accruals		**4,188,152**	2,677,845
Deferred income		**31,263**	21,695
Provision		**100,724**	78,463
Long-term loans due within one year		**673,384**	1,509,569
Total current liabilities		**31,199,541**	20,971,597
Non-current liabilities			
Long-term loans		**1,005,039**	911,322
Bank advances on factored long-term trade receivable	4	**753,568**	3,142,709
Bonds payable		**3,514,652**	—
Specific payables		**80,000**	80,000
Deferred tax liabilities		**7,242**	27,823
Other non-current liabilities		**39,752**	38,097
Total non-current liabilities		**5,400,253**	4,199,951
Total liabilities		**36,599,794**	25,171,548
Shareholders' equity			
Share capital		**1,343,330**	959,522
Capital reserves		**6,271,137**	5,772,061
Surplus reserves		**769,603**	769,603
Retained profits		**1,992,735**	1,417,872
Proposed final dividend		**402,999**	239,880
Foreign currency translation differences		**(11,493)**	(3,651)
Total shareholders' equity		**10,768,311**	9,155,287
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**47,368,105**	34,326,835

Notes on page 121 to page 207 form an integral part of these financial statements

The financial statements on pages 109 to 207 have been signed by:

Legal representative:	Chief Financial Officer:	Head of Finance Division:
Hou Weigui	Wei Zaisheng	Shi Chunmao

INCOME STATEMENT

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

	Note XVI	2008	2007 (Restated)
Operating revenue	6	**40,745,196**	32,799,255
Less: Operating costs	6	**33,455,197**	27,598,911
Taxes and surcharges		**89,472**	41,396
Selling and distribution costs		**4,076,649**	3,678,450
Administrative expenses		**1,131,736**	1,165,704
Research and development costs		**885,718**	1,066,595
Finance expenses		**1,013,256**	683,100
Impairment losses		**164,869**	669,501
Add: Gains/(losses) from changes in fair values		**(136,203)**	123,644
Investment income	7	**1,268,859**	2,050,189
Including: Share of profits and losses of Jointly-controlled entities and associates	7	**1,867**	5,268
Operating profit		**1,060,955**	69,431
Add: Non-operating income		**127,061**	127,117
Less: Non-operating expenses		**46,571**	64,481
Including: Loss on disposal of non-current assets		**17,879**	11,508
Total profit		**1,141,445**	132,067
Less: Income tax		**163,583**	106,732
Net profit		**977,862**	25,335

Notes on page 121 to page 207 form an integral part of these financial statements

The financial statements on pages 109 to 207 have been signed by:

Legal representative:	Chief Financial Officer:	Head of Finance Division:
Hou Weigui	Wei Zaisheng	Shi Chunmao

STATEMENT OF CHANGES IN EQUITY

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

	2008						
	Share capital	Capital reserves	Surplus reserves	Retained profits	Proposed final dividend	Foreign currency translation differences	Total shareholders' equity
I. Current year's beginning balance	959,522	5,772,061	769,603	1,417,872	239,880	(3,651)	9,155,287
II. Changes in current year							
(1) Net profit	–	–	–	977,862	–	–	977,862
(2) Gains/(losses) recognized directly in equity	–	–	–	–	–	–	–
1. Issue of Bonds cum Warrants	–	580,210	–	–	–	–	580,210
2. Effect of changes of other equity holders' interest in invested entities by equity method	–	3,123	–	–	–	–	3,123
3. Related tax effect of items recognized directly in equity	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	(7,842)	(7,842)
Sub-total of (1) and (2)	–	583,333	–	977,862	–	(7,842)	1,553,353
(3) Changes of paid-in capital							
1. Capital injection from shareholders	–	–	–	–	–	–	–
2. Equity settled share expense	–	299,551	–	–	–	–	299,551
3. Others	–	–	–	–	–	–	–
(4) Profit appropriation							
1. Appropriation to surplus reserves	–	–	–	–	–	–	–
2. Distribution to shareholders	–	–	–	–	(239,880)	–	(239,880)
3. Proposal final dividend	–	–	–	(402,999)	402,999	–	–
4. Others	–	–	–	–	–	–	–
(5) Transfer of shareholders' equity							
1. Transfer of capital reserve to share capital	383,808	(383,808)	–	–	–	–	–
2. Transfer of surplus reserves to share capital	–	–	–	–	–	–	–
3. Surplus reserves making up of losses	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–
III. Current year's ending balance	1,343,330	6,271,137	769,603	1,992,735	402,999	(11,493)	10,768,311

Notes on page 121 to page 207 form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY (continued)

(Prepared under PRC ASBEs)
(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
I. Current year's beginning balance	959,522	5,474,393	769,603	1,632,417	143,928	(1,493)	8,978,370
II. Changes in current year							
(1) Net profit	–	–	–	25,335	–	–	25,335
(2) Gains/(losses) recognized directly in equity							
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)
Sub-total of (1) and (2)	–	–	–	25,335	–	(2,158)	23,177
(3) Changes of paid-in capital							
1. Capital injection from shareholders	–	–	–	–	–	–	–
2. Equity settled share expense	–	297,668	–	–	–	–	297,668
3. Others	–	–	–	–	–	–	–
(4) Profit appropriation							
1. Appropriation to surplus reserves	–	–	–	–	–	–	–
2. Distribution to shareholders	–	–	–	–	(143,928)	–	(143,928)
3. Proposal final dividend	–	–	–	(239,880)	239,880	–	–
4. Others	–	–	–	–	–	–	–
(5) Transfer of shareholders' equity							
1. Transfer of capital reserve to share capital	–	–	–	–	–	–	–
2. Transfer of surplus reserves to share capital	–	–	–	–	–	–	–
3. Surplus reserves making up of losses	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–
III. Current year's ending balance	959,522	5,772,061	769,603	1,417,872	239,880	(3,651)	9,155,287

Notes on page 121 to page 207 form an integral part of these financial statements

The financial statements on pages 109 to 207 have been signed by:

Legal representative:	Chief Financial Officer:	Head of Finance Division:
Hou Weigui	Wei Zaisheng	Shi Chunmao

CASH FLOW STATEMENT

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

		2008	2007
1.	**Cash flows from operating activities**		
	Cash received from sale of goods or rendering services	39,233,345	29,194,282
	Cash received from taxes returned	3,088,258	1,986,659
	Cash received relating to other operating activities	213,248	158,803
	Sub-total of cash inflow	42,534,851	31,339,744
	Cash paid for goods and services	31,511,180	26,772,364
	Cash paid to and on behalf of employees	1,523,431	1,884,394
	Payments of taxes and levies	149,482	132,293
	Cash paid relating to other operating activities	4,734,886	2,538,701
	Sub-total of cash outflow	37,918,979	31,327,752
	Net cash flows from operating activities	4,615,872	11,992
2.	**Cash flows from investing activities**		
	Cash received from sale of investments	—	10,146
	Cash received from gains of investment	97,900	29,534
	Sub-total of cash inflow	97,900	39,680
	Cash paid to acquire fixed asset, intangible assets and other long-term assets	1,302,964	1,276,510
	Cash paid for equity investment	805,114	65,151
	Sub-total of cash outflow	2,108,078	1,341,661
	Net cash flow from investing activities	(2,010,178)	(1,301,981)
3.	**Cash flows from financing activities**		
	Cash received from investment	43,342	485,932
	Cash received from the issue of Bonds cum Warrants	3,961,444	—
	Cash received from borrowings	6,372,399	5,853,557
	Sub-total of cash inflow	10,377,185	6,339,489
	Cash paid for debt repayments	8,376,712	2,968,298
	Cash payments for distribution of dividends, profits and interest expenses	668,330	390,798
	Sub-total of cash outflow	9,045,042	3,359,096
	Net cash flow from financing activities	1,332,143	2,980,393
4.	**Effect of changes in foreign exchange rate on cash and cash equivalents**	(218,452)	(8,758)
5.	**Net increase in cash and cash equivalents**	3,719,385	1,681,646
	Add: cash and cash equivalents at beginning of year	4,604,365	2,922,719
6.	**Net balance of cash and cash equivalents**	8,323,750	4,604,365

Notes on page 121 to page 207 form an integral part of these financial statements

The financial statements on pages 109 to 207 have been signed by:

Legal representative:	Chief Financial Officer:	Head of Finance Division:
Hou Weigui	Wei Zaisheng	Shi Chunmao

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC ASBEs)
(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 4403011 015176 (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, multimedia 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 ASBEs)
(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 2008, the undertakings made by Zhongxingxin in Share Reform Plan had been fully complied with and all shares subject to lock-up were released.

Pursuant to a resolution of the the 2007 annual general meeting of the Company, the registered capital of the Company was increased by capitalising the reserve fund of the Company. Bonus Shares was 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 increased from RMB959,521,650 to RMB1,343,330,310 upon completion of the Bonus Issue. As at 31 December 2008, the total accumulated share capital in issue of the Company was 1,343,330,310 shares. Please see Note VI. 33 for details.

II. BASIS OF PREPARATION

These financial statements have been prepared in accordance with the "Enterprise Accounting Standards — Basic Standards" and 38 specific accounting standards, subsequent practice notes, interpretations and other relevant regulations promulgated by the Ministry of Finance in February 2006.

The financial statements are prepared on a going concern basis.

STATEMENT OF COMPLIANCE

The financial statements truly and completely reflect the financial position on 31 December 2008 and the operating results and cash flow for the year 2008 of the Company and the Group.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The financial information set out in the financial statements in 2008 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 ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (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 recognised in the profit or loss for the current period.

NOTES TO FINANCIAL STATEMENTS

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (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 2008. Subsidiaries are those enterprises or 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 profit and loss and unrealized profit and loss arising from intercompany transactions, and intercompany balances are eliminated on 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 results and cash flow of the acquiree will be recognized in consolidated financial statements 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. In preparing the comparative consolidated financial statetments, adjustments were made to relevant items in financial statements in previous periods as if the reporting entity formed after the consolidation had been in existence since the ultimate controlling party started to exercise effective control.

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (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 foreign operations are involved in the consolidated financial statements, foreign exchange differences arising from exchange rate movements are recognised as "foreign currency translation differences" in shareholders' equity if foreign currency items exist to effectively constitute net investments in foreign operations. 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 materials sub-contracted for processing, and contract works in progress, 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (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 equity investments in subsidiaries, joint ventures and associates, as well as equity investments in investees over the Company does not exercise control, common control or significant influence which are not quoted in an active market and the fair value of which cannot be reliably measured. Long term equity investments were recorded at initial investment cost on acquisition.

The cost method is used when the Group does not jointly control or has significant influence over the investee, and the long term equity investments are not quoted in active markets, and have no reliably measurable fair values. In the financial statements of the Company, the cost method is used for long-term equity investments in investees over which the Company exercises control.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

10. Long-term investments (continued)

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. Common control means shared control over certain economic activities pursuant to contractual agreements and exists only if significant financial and operational decisions relating to such economic activities require unanimous approval of investing parties sharing such control. Significant control means having the authority to take part in the decision over the financial and operational policies but not the authority to control or jointly control with other parties the formulation of such policies.

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.

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 invested entity, 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 intertransactions 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. Upon the disposal of such investment, it will be transferred to profit and loss for the current period on a proportionate basis.

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. Long-term equity investments accounted for under the equity method and recognised in the shareholders' equity shall be transferred to profit and loss for the current period on a proportionate basis upon disposal.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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.

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	5–10 years	5%	9.5%–19%
Machinery equipment	5–10 years	5%	9.5%–19%
Motor vehicles	5–10 years	5%	9.5%–19%
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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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

Land use rights acquired by the Group are normally accounted for as intangible assets. Land use rights and buildings relating to plants constructed by the Group are accounted for as intangible assets and fixed assets, respectively. The costs for acquiring land and buildings are apportioned between the land use rights and buildings, or accounted for as fixed assets if they cannot be apportioned.

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.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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 (or part of it, or a part of a group of similar financial asset) is derecognized when one of the following criteria is met:

(1) The right of receiving the cash flow generated from the financial asset is terminated;

(2) The right of receiving cash flow generated by the financial assets is retained with the obligation of paying the full amount of cash flow received to third parties in a timely manner under "withholding" agreements; or

(3) The right of receiving cash flow generated by the financial assets is transferred, and (a) substantially all risks and rewards of the ownership of such financial assets have been transferred, or (b) control over such financial assets has been renounced even though substantially none of the risks and rewards of the ownership of such financial assets have been transferred or retained.

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.

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: they are acquired or incurred principally for the purpose of selling or repurchasing in the near term; 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; they are derivative financial instruments, with the exception of derivatives designated as valid arbitrage, derivatives under financial guarantee contracts and derivatives linked to and settled by way of delivery of equity investments not quoted in an active market and whose fair value cannot be reliably measured. 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

15. Financial instruments (continued)

Classification and valuation of financial assets (continued)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets whose maturity and redemption amount are fixed or ascertained and in respect of which the Group has clear intentions or ability to hold until maturity. Such financial assets are subsequently measured using the effective interest method on the basis of amortised cost. Gains or losses arising from derecognition, impairment or amortization are recognised in the current 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 amortization 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.

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: 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

15. Financial instruments (continued)

Classification and valuation of financial liabilities (continued)

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: they are acquired or incurred principally for the purpose of selling or repurchasing in the near term; 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; they are derivative financial instruments, with the exception of derivatives designated as valid arbitrage, derivatives under financial guarantee contracts and derivatives linked to and settled by way of delivery of equity investments not quoted in an active market and whose fair value cannot be reliably measured. 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 best estimates recognized on the basis of expenses required for the fulfillment of relevant present obligations at the balance sheet date 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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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

15. Financial instruments (continued)

Convertible bonds

Upon issuance, the Group determines in accordance with the terms of the convertible bonds whether such bonds consist of both equity and liability components. For convertible bonds that carry both equity and liability components,liability and equity are separately dealt with upon initial recognition. During the segregation, the fair value of the liability is first determined and adopted as the initially recognition. Then the initial recognition of the equity component is determined by deducting the initial liability recognition from the overall issue price of the convertible bonds. Transaction costs are apportioned between liability and equity according to their respective fair values. The liability component is presented as liability and subsequently measured on an amortised cost basis, until it is cancelled, converted or redeemed. The equity component is presented as equity and no subsequent measurement is applicable.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

15. Financial instruments (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

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.

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.

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 — Longterm 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.

Derecognition of financial assets

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 AND ACCOUNTING ESTIMATES (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 abnormal interruption has lasted for more than three months during the process of acquisition, construction or production. The borrowing cost incurred during interruption should be recognized as expenses and recorded in the income statement until the resume of the construction.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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.

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 incentive schemes

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 capital reserves, 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 expense of equity-settled transactions recognized for the period is the cumulative expense recognized at each balance sheet date until the vesting date less the cumulative expense recognized in previous periods.

For share incentive schemes whose vesting is conditional upon performance conditions, the effect of market conditions should be taken into account when determining its fair value. An employee should be deemed to have rendered his service if all other non-market conditions have been fulfilled.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

21. Employee benefits (continued)

Share incentive schemes (continued)

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.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

22. Income tax (continued)

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;

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

The preparation of financial statements requires judgement and estimation of the management. Such judgement and estimation will affect the reported amounts of revenue, expenses, assets and liabilities and the disclosure of contingent liabilities as at the balance sheet date. However, the consequence arising from the uncertain nature of such estimation may result in significant adjustment to the book value of the asset or liability affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgement, which have the most significant effect on the amounts recognized in the financial statements:

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

24. Significant accounting judgements and estimates (continued)

Judgements (continued)

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.

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 postcontract support is the only undelivered element.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

24. Significant accounting judgements and estimates (continued)

Judgements (continued)

Revenue recognition (continued)

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 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: it is probable that the economic benefits of the income will flow to the Group; the amount can be reliably measured; the Group has transferred the principal risks and rewards of ownership to the buyer and has not retained ongoing management and effective control usually associated with ownership; and relevant costs incurred or to be incurred can be reliably measured.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

24. Significant accounting judgements and estimates (continued)

Estimation uncertainty

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

Impairment of 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 cashgenerating 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, including that in relation to 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.

Development expenses

In determining the amount of capitalization, the management must make assumptions concerning the expected future cash flow, applicable discount ratio and expected period of benefits of the assets.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

24. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

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.

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.
Overseas tax	—	Overseas taxes were payable in accordance with tax laws of various countries and regions.
Enterprise income tax	—	In accordance with the Law on Enterprise Income Tax promulgated on 1 January 2008, enterprise income tax was payable by the Group on its taxable income.

The Company has been registered and established in Shenzhen Special Economic Zone, and obtained the certification as a national-grade hi-tech enterprise, with which the company enjoys an enterprise income tax rate of 15%. Part of domestic subsidiaries' enterprise income taxes as following:

As a designated software enterprise, Zhongxing Software is an important software enterprise under the National Planning Layout and is subject to the currently applicable enterprise income tax rate of 10%.

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IV. TAXATION (continued)

ZTE Technology & Service Company Limited ("ZTE Technology & Service") enjoyed the tax holiday with an exemption from enterprise income tax in the first profitable year and a 50% reduction of enterprise income tax in the second and third years. ZTE Technology & Service is an enterprise providing advanced technology services in Shenzhen. The applicable enterprise income tax rate is 18%. The current year was its second profitable year and the company was subject to a reduced enterprise income tax of 9%. The company has obtained the certification of a national-grade hi-tech enterprise.

ZTE Mobile Tech Co., Ltd. ("ZTE Mobile"), as a SEZ enterprise engages in the servicing industry, was entitled to an enterprise income tax exemption in the first profitable year and a 50% reduction of enterprise income tax in the second and third years. The applicable enterprise income tax rate of ZTE Mobile is 18%. The current year was its second profitable year and the company was subject to a reduced enterprise income tax of 9%. The company has obtained the certification of a national-grade hi-tech enterprise.

ZTE Microelectronics Technology Co., Ltd. ("ZTE Microelectronics"), as a manufacturing enterprise, was entitled to enterprise income tax exemption in the first and second profitable years and was entitled to a 50% reduction in enterprise income tax from the third to the fifth year. As a hi-tech enterprise of Shenzhen, ZTE Microelectronics has obtained the certification of a national-grade hi-tech enterprise. However, the current year is the fifth profitable year and the applicable enterprise income tax rate is 18%. Thus, the company was subject to a reduced enterprise income tax of 9%.

As a hi-tech enterprise of Shenzhen, Shenzhen Lead Communication Equipment Company Limited has obtained the certification of a national-grade hi-tech enterprise, to which an enterprise income tax rate of 15%.

Xi'an Zhong Xing Software Co., Ltd. was entitled to enterprise income tax exemption in the first and second profitable years and was entitled to a 50% reduction in enterprise income tax from the third to the fifth year. The current year is the second profitable year and enjoyed enterprise income tax exemption. The company has obtained the certification of a national-grade hi-tech enterprise.

Xi'an Zhong Xing Jing Cheng Communication Co., Ltd. has obtained the certification of a national-grade hi-tech enterprise, to which an enterprise income tax rate of 15% shall apply from 2008 to 2010.

As a hi-tech enterprise of Nanjing, ZTEsoft has obtained the certification of a national-grade hi-tech enterprise, to which an enterprise income tax rate of 15% shall apply from 2008 to 2010.

Nanjing Zhong Xing Software Co., Ltd. was entitled to enterprise income tax exemption in the first and second profitable years and was entitled to a 50% reduction in enterprise income tax from the third to the fifth year. The current year is the third profitable year and the company was subject to a reduced enterprise income tax of 12.5%. The company has obtained the certification of a national-grade hi-tech enterprise.

Shanghai Zhong Xing Software Co., Ltd. was entitled to enterprise income tax exemption in the first and second profitable years and was entitled to a 50% reduction in enterprise income tax from the third to the fifth year. The current year is the second profitable year and enjoyed enterprise income tax exemption. The company has obtained the certification of a national-grade hi-tech enterprise.

As a hi-tech enterprise of Shanghai, Shanghai Zhongxing Telecom Equipment Technology & Service Company, Limited has obtained the certification of a national-grade hi-tech enterprise, to which an enterprise income tax rate of 15% shall apply from 2008 to 2010.

As a hi-tech enterprise of Wuxi, Wuxi Zhongxing Optoelectronics Technologies Company Limited has obtained the certification of a national-grade hi-tech enterprise, to which an enterprise income tax rate of 15% shall apply from 2008 to 2010.

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V. CONSOLIDATING SCOPE OF THE CONSOLIDATED FINANCIAL STATEMENT

Particulars of the principal subsidiaries of the Group are as below:

Name of company	Place of registration	Principal activities	Registered capital	Investment by the Group	Percentage of equity interests Direct	Percentage of equity interests Indirect	Percentage of voting power	Organization number
Shenzhen Zhongxing Software Company Limited	Shenzhen	Manufacturing	RMB50 million	RMB49 million	73%	25%	98%	75250847-2
ZTE (H.K.) Limited	Hong Kong	Information and technology	HK$500 million	HK$500 million	100%	–	100%	N/A
Shenzhen Zhongxing Telecom Equipment Technology & Service Co., Ltd.	Shenzhen	Telecommunication and services	RMB50 million	RMB50 million	90%	10%	100%	76199710-8
ZTE Kangxun Telecom Company, Limited	Shenzhen	Telecommunication and related equipment manufacturing	RMB50 million	RMB45 million	90%	–	90%	279285671
ZTE Telecom India Private Limited	India	Telecommunication and related equipment manufacturing	INR1,250 million	USD28.80 million	100%	–	100%	N/A
南京中興軟創科技股份有限公司	Nanjing	Manufacturing	RMB200 million	RMB45.04 million	76%	–	76%	74537900-0
Shenzhen Changfei Investment Co., Ltd.	Shenzhen	Manufacturing	RMB30 million	RMB15.30 million	51%	–	51%	75860475-6
深圳市中興移動通信有限公司	Shenzhen	Telecommunication and related equipment manufacturing	RMB39.583 million	RMB31.67 million	80%	–	80%	73205874-2
Wuxi Zhongxing Optoelectronics Technologies Co., Ltd.	Wuxi	Telecommunication and related equipment manufacturing	RMB10 million	RMB6.50 million	65%	–	65%	71869554-2
Anhui Wantong Postal and Telecom Co., Ltd.	Hefei	Telecommunication and related equipment manufacturing	RMB31.10 million	RMB15.70 million	51%	–	51%	14897470-9
ZTE Integration Telecom Ltd.	Shenzhen	Telecommunication and related equipment manufacturing	RMB55 million	RMB44.00 million	75%	5%	80%	74886449-0
Shanghai Zhongxing Telecom Equipment Technology & Service Co., Ltd.	Shanghai	Telecommunication and services	RMB10 million	RMB5.10 million	51%	–	51%	76223980-0
西安中興新軟件有限責任公司	Xi'an	Telecommunication and related equipment manufacturing	RMB600 million	RMB600 million	100%	–	100%	68385252-7

In 2008, the Group established 9 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

1. Cash on hand and at bank

		2008			2007		
		Original Currency	**Exchange rate**	**RMB equivalent**	Original Currency	Exchange rate	RMB equivalent
Cash	RMB	**656**	**1.0000**	**656**	956	1.0000	956
	USD	**1,343**	**6.8346**	**9,179**	790	7.3046	5,771
	SAR	**1,250**	**1.8193**	**2,274**	369	1.9428	717
	EUR	**210**	**9.6590**	**2,028**	56	10.6669	597
	MRO	**12,735**	**0.0268**	**341**	9,156	0.0286	262
	DZD	**1,875**	**0.0963**	**181**	1,750	0.1020	179
	INR	**1,262**	**0.1402**	**177**	1,332	0.1852	247
	THB	**454**	**0.1958**	**89**	305	0.2431	74
	HKD	**37**	**0.8819**	**33**	97	0.9364	91
	Others	**—**	**—**	**341**			666
	Subtotal			**15,299**			9,560

		2008			2007		
		Original Currency	**Exchange rate**	**RMB equivalent**	Original Currency	Exchange rate	RMB equivalent
Bank deposit	RMB	**6,334,308**	**1.0000**	**6,334,308**	3,323,708	1.0000	3,323,708
	USD	**495,904**	**6.8346**	**3,389,305**	187,924	7.3046	1,372,710
	HKD	**27,651**	**0.8819**	**24,385**	38,325	0.9364	35,888
	BRL	**21,340**	**2.8944**	**61,767**	7,374	4.1337	30,482
	PKR	**2,166,164**	**0.0864**	**187,157**	496,485	0.1191	59,131
	EGP	**28,296**	**1.2382**	**35,036**	14,791	1.3257	19,608
	IDR	**225,974,462**	**0.0006**	**135,585**	8,138,452	0.0008	6,511
	EUR	**88,884**	**9.6590**	**858,531**	123,835	10.6669	1,320,936
	DZD	**1,030,179**	**0.0963**	**99,206**	238,239	0.1020	24,300
	MYR	**5,962**	**1.9730**	**11,763**	9,371	2.1870	20,494
	Others			**191,818**			75,556
	Subtotal			**11,328,861**			6,289,324

		2008			2007		
		Original Currency '000	**Exchange rate**	**RMB equivalent**	Original Currency '000	Exchange rate	RMB equivalent
Other currency	RMB	**132,184**	**1.0000**	**132,184**	172,328	1.0000	172,328
	Others			**4,062**			11,958
	Subtotal			**136,246**			184,286
	Total			**11,480,406**			6,483,170

As at 31 December 2008, the Group's restricted currency cash amounted to RMB136,246,000. Please refer to Note VI.18.

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VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Cash on hand and at bank (continued)

As at 31 December 2008, the Group's off-shore currency deposits amounted to RMB1,535,102,000.

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/liabilities

	2008	2007
Forward currency contracts		
Derivative financial assets	**–**	123,644
Derivative financial liabilities	**12,560**	7,876

Management deems that there is no significant restriction for the realization of derivative financial assets.

3. Bills receivable

	2008	2007
Bank acceptance bills	**370,751**	745,257
Commercial acceptance bills	**1,207,722**	911,001
Total	**1,578,473**	1,656,258

As at 31 December 2008, bills with a book value of RMB468,824,000 were discounted for the acquisition of short-term loans (31 December 2007: RMB465,159,000).

As at 31 December 2008, no outstanding amount due from shareholders holding 5% or more in the shares (31 December 2007: nil).

As at 31 December 2008, there were no bills receivable which had been pledged, bills endorsed with recourse, bills transferred to trade receivables as a result of the default of the issuer and bills which were endorsed to other parties but were not due as at year end.

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VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Trade receivables

Trade receivables arising from communications systems construction works and the provision of labour services are recognised according to the payment periods stipulated in contracts. The credit period for trade receivables arising in the sales of goods normally ranges from 0-90 days, and may be extended to a maximum of 1 year depending on the credit standing of the customer. Trade receivables are interest-free.

	2008			2007		
	Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
RMB	**3,492,649**	**1.0000**	**3,492,649**	2,728,635	1.0000	2,728,635
USD	**599,951**	**6.8346**	**4,100,425**	419,704	7.3046	3,065,770
EUR	**119,375**	**9.6590**	**1,153,043**	38,699	10.6669	412,798
PKR	**3,572,039**	**0.0864**	**308,624**	2,638,900	0.1191	314,293
INR	**3,360,114**	**0.1402**	**471,088**	1,271,706	0.1852	235,520
Others			**446,666**			341,933
Total			**9,972,495**			7,098,949

Aging analysis of trade receivables was as follows:

	2008	2007
Within one year	**9,915,769**	7,220,290
Between one to two years	**1,016,036**	570,858
Between two to three years	**265,763**	276,581
Over three years	**301,657**	86,685
	11,499,225	8,154,414
Less: bad debt provision for trade receivables	**(1,526,730)**	(1,055,465)
	9,972,495	7,098,949

	2008				2007			
	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	**5,792,559**	**50%**	**915,130**	**16%**	3,296,926	40%	670,836	20%
Not significant balances	**5,706,666**	**50%**	**611,600**	**11%**	4,857,488	60%	384,629	8%
	11,499,225	**100%**	**1,526,730**		8,154,414	100%	1,055,465	

Individual bad debt provision was accrued for those trade receivables with objective evidences of impairment.

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VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Trade receivables (continued)

Please refer to Note VI.17 for details of movements in bad debt provision for trade receivables for the year.

	2008	2007
Total amount of top five balances	**3,454,485**	2,077,764
As a percentage of total trade receivables	**30.04%**	25.48%

As at 31 December 2008, RMB943,000 was due from shareholders or related parties holding 5% or more in the shares. Please refer to Note VIII. "The relationships and transactions among related parties" (31 December 2007: RMB943,000).

Transfer of risk and rewards of trade receivables not satisfied the derecognition condition is separately classified as "Factored trade receivables" and "Bank advances on factored trade receivables" amounting to RMB1,658,941,000 (31 December 2007: RMB153,668,000)

As at 31 December 2008, the book value of trade receivables of the Group with restricted rights was RMB868,794,000 (31 December 2007: nil). Please refer to Note VI.18 for details.

Maturity profiles of trade receivables not considered impaired as at the balance sheet date are analysed as follows:

	2008	2007
Not overdue and no impairment	**2,625,931**	1,940,356
Overdue but no impairment (within one year)	**5,866,359**	4,313,249
	8,492,290	6,253,605

5. Prepayments

Aging analysis of prepayments was as follows:

	2008		2007	
	Balance	**Percentage**	Balance	Percentage
Within one year	**355,887**	**100%**	311,362	100%

As at 31 December 2008, no outstanding amount due from shareholders or related parties holding 5% or more in the shares (31 December 2007: Nil).

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VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Other receivables

Aging analysis of other receivables was as follows:

	2008	2007
Within one year	**662,704**	655,230
Between one to two years	**66,421**	21,067
Between two to three years	**19,852**	13,592
Over three years	**8,870**	—
	757,847	689,889
Less: bad debt provision for other receivables	**—**	—
	757,847	689,889

	2008	2007
Total amount of top five balances	**192,827**	137,856
As a percentage of total other receivables	**25.44%**	19.98%

As at 31 December 2008, no outstanding amount due from shareholders holding 5% or more in the shares. (31 December 2007: Nil)

As at the balance sheet date, all balances are overdue but no impairment.

7. Inventories

	2008	2007
Raw materials	**2,166,948**	2,546,562
Materials under sub-contract processing	**89,550**	50,962
Work-in-progress	**745,131**	735,703
Finished goods	**2,337,993**	2,553,963
Contract works in progress	**4,108,578**	2,066,073
	9,448,200	7,953,263
Less: Provision for impairment of inventory	**(470,164)**	(523,760)
	8,978,036	7,429,503

Please refer to Note VI.17 for details of movements in the provision for impairment of inventory.

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.

8. Amount due from/to customers for contract work

	2008	2007
Amount due from customers for contract work	**7,894,010**	6,540,218
Amount due to customers for contract work	**(2,965,582)**	(1,597,314)
	4,928,428	4,942,904
Contract costs incurred plus recognized profits less recognized losses to date	**32,018,956**	20,711,738
Less: progress billings	**(27,090,528)**	(15,768,834)
	4,928,428	4,942,904

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VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Available-for-sale financial assets

	2008	2007
Available-for-sale equity instruments	251,148	43,464

2008

	Beginning balance of the year	Additions	Reductions	Closing balance of the year
深圳市創新投資集團有限公司	5,000	—	—	5,000
北京中視聯數字系统有限公司	3,240	—	—	3,240
中移鼎訊通信股份有限公司	32,000	—	—	32,000
Beijing Zhongxing Intelligent Transportation Systems Ltd.	1,024	—	—	1,024
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
航天科技投資控股有限公司	—	201,734	—	201,734
網經科技 (開曼) 有限公司	—	3,430	—	3,430
VENE ZOLANA TELECOMMUNICATION E.S.C.A	—	2,520	—	2,520
	43,464	207,684	—	251,148

2007

	Beginning balance of the year	Additions	Reductions	Closing balance of the year
深圳市創新投資集團有限公司	5,000	—	—	5,000
北京中視聯數字系统有限公司	3,240	—	—	3,240
中移鼎訊通信股份有限公司	32,000	—	—	32,000
Beijing Zhongxing Intelligent Transportation Systems Ltd.	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

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VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Long-term trade receivables

	2008	2007
Long term trade receivables	**787,532**	762,395
Substract: Bad debt provision for long-term trade receivables	**(175,524)**	(181,388)
	612,008	581,007

Please refer to Note VI.17 for details of movements in bad debt provision for long-term trade receivables long-term trade receivables for the year.

As at the balance sheet date, the balance was not overdue. The impairment was indicated by objective evidence.

Transfer of trade receivables not qualify for derecognition is separately reflected in "factored long-term trade receivable" and "Bank advances on factored trade receivables". The amount as at the end of the year under review was RMB753,568,000 (31 December 2007: RMB3,142,709,000).

The Company has entered into a telecommunications system project with an African telecommunications operator with a total contract amount of US$1,000,000,000. The related accounts receivable is to be settled by promissory notes issued by the telecommunications operator with maturity dates ranging from 3 to 13 years. A government strategic bank in the PRC has agreed to factor these promissory notes pursuant to a receivables purchases agreement. During the financing period, the bank will charge interest at LIBOR+1.5% which will be shared by the Company and the telecommunications operator at a predetermined portion. If there is any delay or non-payment of interest by the telecommunications operator, the Company bears no risk and is not responsible for such payment and the related penalties. If there is default in the payment of the principal amount, the Company would bear the first 20% of default losses on the factored amount. As at 31 December 2008, under the above arrangement, accounts receivable due from the customer amounted to RMB3,542,011,000 among which RMB2,833,609,000 has been derecognised from the consolidated balance sheet as they have fulfilled the derecognition conditions as stipulated in Accounting Standards for Business Enterprises No. 23. An associated liability of RMB708,402,000 has been recognised in the consolidated balance sheet to the extent of the Company's continuing involvement.

11. Long-term equity investments

Equity method		2008	2007
Jointly-controlled entities	(1)	**2,255**	2,255
Associates	(2)	**166,178**	134,764
		168,433	137,019

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VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Long-term equity investments (continued)

2008

(1) Associates

				Equity adjustment					
							Provision for impairment		
	Share of registered capital	Initial investment	Accumulated additional/ (reduced) investment cost	Changes in profit and loss during the year	Cash bonus during the year	Accumulated change in profit and loss	Additions for the year	Accumulated additions	Ending balance of the year
		1	2			3		4	5=1+2+3+4
Bestel Communications Ltd.	50%	2,050	–	–	–	205	–	–	2,255
		2,050	–	–	–	205	–	–	2,255

(2) Jointly-controlled entities

				Equity adjustment					
							Provision for impairment		
	Share of registered capital	Initial investment	Accumulated additional/ (reduced) investment cost	Changes in profit and loss during the year	Cash bonus during the year	Accumulated change in profit and loss	Additions for the year	Accumulated additions	Ending balance of the year
		1	2			3		4	5=1+2+3+4
深圳市富德康電子有限公司	30%	1,800	–	1,096	–	2,024	–	–	3,824
ZTE IC Design Co., Ltd	29.4%	30,000	(1,844)	9,658	–	(699)	–	–	27,457
KAZNURTEL Limited Liability Company	49%	1,012	–	–	–	1,465	–	–	2,477
Wuxi Kaier Technology Co., Ltd	30.88%	3,500	–	1,459	–	5,615	–	–	9,115
Shenzhen Zhongxing Xinyu FPC Company, Limited	22.73%	2,500	–	782	(909)	3,574	–	–	6,074
Shenzhen Weigao Semiconductor Company, Limited	40%	4,000	–	(625)	–	(2,051)	–	–	1,949
Shenzhen Decang Technology Company Limited	30%	1,000	–	2,209	–	14,428	–	–	15,428
深圳市聚飛光電有限公司	22.5%	4,500	–	7,844	(1,125)	10,813	–	–	15,313
中興軟件技術(南昌)有限公司	30%	4,500	–	(10)	–	(1,102)	–	–	3,398
Shenzhen Smart Electronics Company, Limited	30%	3,335	2,006	5,513	–	9,332	–	–	14,673
深圳市鼎力網絡有限公司	35%	3,500	–	96	–	(543)	–	–	2,957
WANAAG Communications Limited	45%	351	–	46	–	(212)	–	–	139
Zhongxing Energy Company Limited	23.26%	60,000	–	(4,497)	–	(4,497)	–	–	55,503
思卓中興(杭州)科技有限公司	49%	3,380	–	(88)	–	(88)	–	–	3,292
北京中鼎盛安科技有限公司	49%	490	–	(411)	–	(411)	–	–	79
南昌興飛科技有限公司	30%	4,500	–	–	–	–	–	–	4,500
		128,368	162	23,072	(2,034)	37,648	–	–	166,178

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VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Long-term equity investments (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
Associates					
Bestel Communications Ltd	Republic of Cyprus	IT industry	Cyrus pounds 600,000	50%	50%
Jointly-controlled entities					
深圳市富德康電子有限公司	China	Machinery and electronic equipment wholesale trade	RMB6,000,000	30%	30%
ZTE IC Design Co., Ltd	China	Computer and related equipment manufacturing industry	RMB74,000,000	29.4%	29.4%
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	RMB20,000,000	22.5%	22.5%
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	HKD30,000,000	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%
Zhongxing Energy Company Limited	China	Energy industry	RMB1,290,000,000	23.26%	23.26%
思卓中興(杭州)科技有限公司	China	Sales and R&D of communications equipment	USD1,000,000	49%	49%
北京中鼎盛安科技有限公司	China	Computer Application Services	RMB1,000,000	49%	49%
南昌興飛科技有限公司	China	Communications industry	RMB15,000,000	30%	30%

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VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Long-term equity investments (continued)

(2) Jointly-controlled entities (continued)

	2008			
	Total assets	Total liabilities	Operating income	Net profit
Associates				
Bestel Communications Ltd	4,606	96	–	–
Jointly-controlled entities				
深圳市富德康電子有限公司	45,016	32,269	57,491	6,746
ZTE IC Design Co., Ltd	166,900	81,699	218,737	21,979
KAZNURTEL Limited Liability Company	7,164	2,109	–	–
Wuxi Kaier Technology Co., Ltd	97,603	68,695	239,657	4,724
Shenzhen Zhongxing Xinyu FPC Company, Limited	98,937	72,206	97,777	6,351
Shenzhen Weigao Semiconductor Company, Limited	16,579	11,706	62,227	(1,562)
Shenzhen Decang Technology Company Limited	100,426	48,989	186,970	6,441
深圳市聚飛光電有限公司	108,632	40,122	117,728	34,864
中興軟件技術(南昌)有限公司	68,467	78,782	37,118	(32)
Shenzhen Smart Electronics Company, Limited	59,865	10,839	220,871	18,267
深圳市鼎力網絡有限公司	8,765	318	4,224	274
WANAAG Communications Limited	1,475	2,308	890	103
Zhongxing Energy Company Limited	242,246	3,587	–	(19,331)
北京中鼎盛安科技有限公司	311	151	–	(839)
南昌興飛科技有限公司	4,500	–	–	–
思卓中興(杭州)科技有限公司	6,921	270	–	(180)

2007

(1) Associates

				Equity adjustment					
							Provision for impairment		
	Share of registered capital	Initial investment	Accumulated additional/ (reduced) investment cost	Changes in profit and loss during the year	Cash bonus during the year	Accumulated change in profit and loss	Additions for the year	Accumulated additions	Ending balance of 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

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11. Long-term equity investments (continued)

(2) Jointly-control entities (continued)

				Equity adjustment					
							Provision for impairment		
	Share of registered capital	Initial investment	Accumulated additional/ (reduced) investment cost	Changes in profit and loss during the year	Cash bonus during the year	Accumulated change in profit and loss	Additions for the year	Accumulated additions	Ending balance of the year
		1	2			3		4	5=1+2+3+4
深圳市富德康電子有限公司	30%	1,800	–	1,203	–	928	–	–	2,728
ZTE IC Design Co., Ltd	40%	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
Zhongxing Energy Company Limited	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 (continued)

12. Fixed assets

2008

	Buildings	Electronic equipment	Machinery equipment	Motor vehicles	Other equipment	Total
Cost						
Opening balance	1,291,681	1,945,474	1,512,304	262,115	37,745	5,049,319
Addition	35,153	60,063	619,826	52,957	11,916	779,915
Transferred from Construction in progress	746,020	283,576	–	–	–	1,029,596
Retirements and disposals	(2,841)	(86,119)	(149,153)	(26,719)	(6,049)	(270,881)
Exchange realignments	(3,424)	(60,650)	(19,191)	(6,623)	(9,272)	(99,160)
Closing balance	2,066,589	2,142,344	1,963,786	281,730	34,340	6,488,789
Accumulated depreciation						
Opening balance	250,459	922,884	642,335	93,171	15,405	1,924,254
Provision	63,491	205,868	282,619	23,762	8,949	584,689
Retirements and disposals	(1,017)	(74,347)	(96,277)	(12,443)	(2,046)	(186,130)
Exchange realignments	(427)	(11,286)	(7,959)	(1,539)	(2,891)	(24,102)
Closing balance	312,506	1,043,119	820,718	102,951	19,417	2,298,711
Provision for impairment						
Opening and closing balance	7,708	77,819	1,475	–	–	87,002
Fixed assets, net						
31 December, 2008	1,746,375	1,021,406	1,141,593	178,779	14,923	4,103,076
31 December, 2007	1,033,514	944,771	868,494	168,944	22,340	3,038,063

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12. Fixed assets (continued)

2007

	Buildings	Electronic equipment	Machinery equipment	Motor vehicles	Other equipment	Total
Cost						
Opening balance	1,007,029	1,774,751	1,195,875	238,044	18,875	4,234,574
Addition	58,629	357,289	274,757	45,090	21,418	757,183
Transferred from Construction in progress	228,136	—	75,164	—	—	303,300
Retirements and disposals	(1,699)	(137,141)	(32,007)	(20,163)	(2,666)	(193,676)
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	58,841	208,575	206,926	25,802	6,726	506,870
Retirements and disposals	(45)	(97,441)	(16,975)	(12,560)	(947)	(127,968)
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 2008	1,033,514	944,771	868,494	168,944	22,340	3,038,063
31 December 2007	807,589	876,521	740,729	157,833	9,186	2,591,858

As at 31 December 2008, houses and buildings with a book value of RMB92,766,000 (31 December 2007: RMB96,478,000) was pledged as security for the preservation of properties subject to legal proceedings. Houses and buildings houses and buildings with a book value of RMB127,743,000 (31 December 2007: RMB133,940,000) was under restricted ownership. Please refer to Note VI.18.

As at 31 December 2008, fixed assets in use for which depreciation had been fully charged had a original cost of RMB247,749,000 (31 December 2007: RMB173,634,000) and a book value of RMB235,362,000 (31 December 2007: RMB8,682,000). There were no fixed assets which were obsolete, pending disposal or idle as at 31December 2008 (31 December 2007: nil).

As at 31 December 2008, the Group was in the process of applying for property ownership certificate for buildings in Shenzhen, Nanjing and Shanghai in China with a net book value of approximately RMB1,121,607,000 (31 December 2007: RMB422,462,000).

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13. Construction in progress

2008

Name of construction project	Budget	Opening balance of the year	Additions	Transferred to fixed assets	Closing balance of the year	Source of funds	Completion status of project
Liuxiandong ZTE Industrial Park	1,000,000	471,817	161,909	482,000	151,726	Internal resources	73.07%
R&D centre and training centre	—	316,286	73,688	250,000	139,974	Internal resources	
Xi'an Technology Park Phase II	—	—	22,450	—	22,450	Internal resources	
Equipment installation project	—	108,130	621,588	283,576	446,142	Internal resources	
Others	—	34,857	35,957	14,020	56,794	Internal resources	
		931,090	915,592	1,029,596	817,086		

2007

Name of construction project	Budget	Opening balance of the year	Additions	Transferred to fixed assets	Closing balance of the year	Source of funds	Completion status of project
Liuxiandong ZTE Industrial Park	650,000	191,818	376,999	97,000	471,817	Internal resources	87.51%
R&D centre and training centre	—	110,757	205,529	—	316,286	Internal resources	
Equipment installation project	—	60,747	122,546	75,163	108,130	Internal resources	
Others	—	106,314	59,680	131,137	34,857	Internal resources	
		469,636	764,754	303,300	931,090		

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14. Intangible assets

2008

	Software	Technology know-how	Land use rights	Operating concession	Total
Cost					
Opening balance	363,946	1,354	47,809	98,619	511,728
Additions	27,761	3,678	437,213	—	468,652
Retirements and disposals	(54,075)	—	(4,749)	(4,089)	(62,913)
Closing balance	337,632	5,032	480,273	94,530	917,467
Accumulated amortization					
Opening balance	211,720	624	1,426	46,154	259,924
Amortization during the year	49,294	830	395	3,460	53,979
Retirements and disposals	(11,260)	—	—	(1,216)	(12,476)
Closing balance	249,754	1,454	1,821	48,398	301,427
Provision for impairment					
Opening and closing balance	12,884	—	6,322	7,750	26,956
Net					
Closing balance	74,994	3,578	472,130	38,382	589,084
Opening balance	139,342	730	40,061	44,715	224,848

2007

	Software	Technology know-how	Land use rights	Operating concession	Total
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 2008, intangible assets of the Group with a book value of RMB84,174,000 (31 December 2007: RMB98,837,000) were subject to restricted ownership. Please refer to Note VI.18.

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VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. Research and development cost

	2008	2007
System products	**379,774**	209,475
Handsets	**96,246**	49,516
	476,020	258,991

Total research and development cost:

	2008	2007
Recognized as expenses	**3,994,145**	3,210,433
Capitalised as development cost	**278,430**	181,481

16. Deferred tax assets/liability

Deferred tax assets recognised:

2008

	Unrealized profit	**Provision for maintenance**	**Tax losses**	**Overseas tax**	**Inventories provision**	**Others**	**Total**
Opening balance	**62,083**	**10,632**	**71,155**	**136,695**	**65,450**	**6,195**	**352,210**
Deferred tax credited to the income statement during the year	**(19,735)**	**14,925**	**13,803**	**32,711**	**7,385**	**(1,034)**	**48,055**
Closing balance	**42,348**	**25,557**	**84,958**	**169,406**	**72,835**	**5,161**	**400,265**

2007

	Unrealized profit	Provision for maintenance	Tax losses	Overseas tax	Inventories provision	Others	Total
Opening balance	7,298	34,562	51,141	87,516	53,166	5,208	238,891
Deferred tax credited to the income statement during the year	54,785	(23,930)	20,014	49,179	12,284	987	113,319
Closing balance	62,083	10,632	71,155	136,695	65,450	6,195	352,210

Deferred tax liabilities recognised:

	2008	2007
R&D expenses capitalised		
Opening balance	**(56,460)**	(27,968)
Deferred tax credited to the income statement during the year	**51,441**	(28,492)
Closing balance	**(5,019)**	(56,460)

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16. Deferred tax assets/liability (continued)

At 31 December 2008, deductible losses of the Group not recognized as deferred income tax assets amounted to RMB362,606,000.

The above items were not recognised as deferred tax assets as the Group was of the view that payable tax credit available for offsetting the aforesaid deductible temporary differences and deductible losses is not likely to arise in future.

17. Provision for impairment of assets

2008

	Opening balance of the year	Provision for the year	Written back	Write-off during the year	Closing balance of the year
Provision of bad debts	1,236,853	478,818	(5,864)	(7,553)	1,702,254
Provision for impairment of inventories	523,760	37,027	(90,623)	–	470,164
Provision for impairment of fixed assets	87,002	–	–	–	87,002
Provision for impairment of intangible assets	26,956	–	–	–	26,956
	1,874,571	515,845	(96,487)	(7,553)	2,286,376

2007

	Opening balance of the year	Provision for the year	Written back	Closing balance of the year
Provision of bad debts	522,811	714,042	–	1,236,853
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
	1,085,431	805,807	(16,667)	1,874,571

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18. Assets under restricted ownership

2008	**Opening balance of the year**	**Increase during the year**	**Decrease during the year**	**Closing balance of the year**	**Note**
Assets subject to guarantee Including: fixed assets	**96,478**	**—**	**(3,712)**	**92,766**	**Note 1**
Assets under restricted ownership for other reasons	**406,198**	**868,794**	**(58,035)**	**1,216,957**	
Including: cash and bank	**173,421**	**—**	**(37,175)**	**136,246**	**Note 2**
Fixed assets	**133,940**	**—**	**(6,197)**	**127,743**	**Note 3**
Intangible assets	**98,837**	**—**	**(14,663)**	**84,174**	**Note 4**
Trade receivables	**—**	**868,794**	**—**	**868,794**	**Note 5**

2007	Opening balance of the year	Increase during the year	Decrease during the year	Closing balance of the year	Note
Assets subject to guarantee Including: fixed assets	100,190	—	(3,712)	96,478	Note 1
Assets under restricted ownership for other reasons	168,997	237,201	—	406,198	
Including: cash and bank	168,997	4,424	—	173,421	Note 2
Fixed assets	—	133,940	—	133,940	Note 3
Intangible assets	—	98,837	—	98,837	Note 4

Note 1: At 31 December 2008, housing and buildings with a book value of RMB92,766,000 (2007: RMB96,478,000) were subject to a guarantee for property preservation under litigation. Details are disclosed in Note IX "Contingent events".

Note 2: At 31 December 2008, cash and bank of the Group with a book value of RMB136,246,000 were subject to restricted ownership, including acceptance bill deposits amounting to RMB131,520,000 (31 December 2007: RMB137,158,000) and letter of credit deposits amounting to RMB4,726,000 (31 December 2007: nil).

Note 3: At 31 December 2008, housing properties with a book value of RMB10,269,000 (31 December 2007: RMB8,906,000) and machinery equipment with a book value of RMB117,474,000 (31 December 2007: RMB121,044,000) had been pledged by Closed Joint Stock Company TK Mobile, a subsidiary of the Group, as security for long-term borrowings.

Note 4: At 31 December 2008, software with a book value of RMB45,799,000 (31 December 2007: RMB54,183,000) had been pledged by Closed Joint Stock Company TK Mobile, a subsidiary of the Group, as security for long-term borrowings; and franchised concession rights with a book value of RMB38,375,000 (31 December 2007: RMB44,654,000) had been pledged by Congo-Chine Telecom S.A.R.L, another subsidiary, as security for long-term borrowings.

Note 5: At 31 December 2008, trade receivables of the Group with a book value of RMB868,794,000 (31 December 2007: nil) were pledged as security for short-term borrowings.

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VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. Short-term loans

		2008			2007		
		Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
Credit loans	RMB	**343,000**	**1.0000**	**343,000**	808,990	1.0000	808,990
	USD	**384,546**	**6.8346**	**2,628,218**	276,992	7.3046	2,023,316
Pledged loans	USD	**127,117**	**6.8346**	**868,794**	—	7.3046	—
Others				**42,467**			61,549
				3,882,479			2,893,855

The rate of the short-term loans is 1.68%-6.56%.

20. Bills payable

	2008	2007
Bank acceptance bills	**3,704,089**	3,946,429
Commercial acceptance bills	**2,613,970**	—
	6,318,059	3,946,429

As at 31 December 2008, no outstanding amount due to shareholders or related parties holding 5% or more in the shares (31 December 2007: Nil).

21. Trade payables

Trade payables are interest-free and repayable normally within 6 months.

As at 31 December 2008, RMB129,615,000 was due to shareholders or related parties holding 5% or more in the shares (31 December 2007: RMB88,023,000). Please refer to Notes VIII "The relationships and transactions among related parties".

22. Advances from customers

As at 31 December 2008, no outstanding amounts due to shareholders or related parties holding 5% or more in the shares (31 December 2007: Nil).

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VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. Salary and welfare payables

2008

	Beginning balance of the year	Accruals	Payments	Ending balance of the year
Salary, bonus, and allowance	896,972	5,449,940	(5,255,578)	1,091,334
Staff welfare	9,555	353,632	(350,504)	12,683
Social insurance	9,045	383,264	(380,136)	12,173
Including: Medical Insurance	449	83,713	(82,946)	1,216
Pension Insurance	8,411	272,775	(270,679)	10,507
Unemployment Insurance	112	12,885	(12,743)	254
Working injuries	28	9,002	(8,930)	100
Maternity Insurance	45	4,889	(4,838)	96
Housing funds	1,790	81,768	(82,198)	1,360
Labour union fund and employee education fund	290,069	160,543	(125,145)	325,467
	1,207,431	6,429,147	(6,193,561)	1,443,017

2007

	Beginning balance of the year	Accruals	Payments	Ending balance of the year
Salary, bonus, and allowance	668,307	4,360,358	(4,131,693)	896,972
Staff welfare	101,809	263,295	(355,549)	9,555
Social insurance	3,578	217,942	(212,475)	9,045
Including: 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 injuries	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
	1,026,746	4,961,602	(4,780,917)	1,207,431

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VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. Tax payable

	2008	2007
Value-added tax ("VAT")	**(1,362,909)**	(1,804,841)
Business tax	**12,063**	6,504
City maintenance and construction tax	**2,809**	2,328
Income tax	**559,953**	399,502
PRC tax	**148,843**	43,971
Overseas tax	**411,110**	355,531
Education surcharge fee	**7,154**	6,584
Individual income tax	**27,311**	19,580
Other tax	**(11,421)**	28,013
	(765,040)	(1,342,330)

25. Dividend payable

	2008	2007
Restricted shares	**10**	—
Unrestricted shares	**22,740**	41,180
	22,750	41,180

The balance represented dividends that had not been paid to minority shareholders by subsidiaries of the Company.

26. Provision

2008

	Opening balance of the year	**Increase during the year**	**Decrease during the year**	**Closing balance of the year**
Provision of penalty	**36,603**	**5,171**	**(8,250)**	**33,524**
Provision for returned handsets	**30,371**	**27,531**	**(13,110)**	**44,792**
Provision for warranties	**59,068**	**135,045**	**(102,047)**	**92,066**
	126,042	**167,747**	**(123,407)**	**170,382**

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
	291,832	108,810	(274,600)	126,042

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VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. Other payables

	2008	2007
Share incentive scheme	**529,273**	485,931
Accruals	**347,558**	298,823
Payables to external parties	**409,935**	338,384
Deposits	**67,965**	51,372
Others	**198,280**	173,955
	1,553,011	1,348,465

As at 31 December 2008, RMB308,000 was due to shareholders or related parties holding 5% or more in the shares (31 December 2007: RMB313,000). Please refer to Notes VIII. "The relationships and transactions among related parties".

28. Long-term liabilities due within one year

	Note	2008	2007
Long-term loans	29	**1,782,006**	1,509,569

29. Long-term loans

Terms	Financial Institutes		2008 Original currency	2008 RMB equivalent	2007 Original currency	2007 RMB equivalent	Maturity	
Credit Loans	The Export-import Bank of China	RMB	**800,000**	**800,000**	1,400,000	1,400,000	2010	
	Bank of China	USD	**50,000**	**341,730**	50,000	365,230	2009–2010	
	China Citic Bank	USD	**20,000**	**136,692**	20,000	146,092	2010	
	Others			**6,418**		111,929	2008–2010	
Secured Loans	China Development Bank	USD	**105,000**	**717,633**	63,000	460,190	2009	Note 1
Secured Loans	China Development Bank	USD	**55,200**	**377,270**	55,200	403,214	2012	Note 2
Guarantee Loans	The Export-import Bank of China	RMB	**694,810**	**694,810**	708,143	708,143	2009–2012	Note 3
Less: Long-term Loans due within one year				**(1,782,006)**		(1,509,569)		
				1,292,547		2,085,229		

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29. Long-term loans (continued)

The rate of Long-term loans is 2.00-11.50%.

Note 1: The loan is guaranteed 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).

30. Bonds payable

2008

	2008	2007
Opening balance	**–**	–
Liability portion of Bonds cum Warrants	**3,381,234**	–
Interest expenses	**133,418**	–
Interest payments	**–**	–
Closing balance	**3,514,652**	–

On 30 January 2008, the Company issued 40,000,000 bonds with warrants with a nominal value of RMB100 each. The bonds and the warrants are listed on the Stock Exchange of Shenzhen. The bonds with warrants are guaranteed by China Development Bank, and are fully redeemable within 5 years from the date of issue. Holders of the bonds have also been issued 1.63 warrants at nil consideration for every bond issued and therefore a total of 65,200,000 warrants have been issued. The warrants are valid for 24 months from the date of listing. Holders of the Warrants are entitled to subscribe for one A Share for every two warrants held at an initial exercise price of RMB78.13 per Share. Since the declaration of bonus issue on 10 July 2008, the conversion price has been adjusted to RMB55.58 each.

The coupon interest rate of the bonds cum warrants is 0.8% per annum payable on 30 January of each year. At the issue of the bonds, interest rates of similar bond issues (without warrants) in the market were higher than the interest rate of the bond cum warrants.

The fair value of the liability component of the bonds cum warrants was assessed by reference to interest rates of similar bond issues (without warrants) in the market at the issue date.

The net book value of the liability component of the bonds cum warrants was set out as follows:

Coupon value of Bonds cum Warrants	4,000,000
Equity portion	(580,210)
Direct transaction costs attributable to the liability portion	(38,556)
Liability cost at issue date	3,381,234

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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. Other non-current liabilities

	2008	2007
Long-term financial guarantee contracts	**3,689**	3,689
Provision for retirement benefits	**36,063**	34,408
	39,752	38,097

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33. Share capital

The Company had registered and paid-in capital of RMB1,343,330,310 with a par value of RMB1 each. Shares were classified and structured as follows:

2008

	Opening balance		Increase/(decrease) during the year		Closing balance	
	Number of shares	Percentage	Transfer from capital reserve	Others	Number of shares	Percentage
I. Restricted shares						
1. State owned corporate shares	310,983	32.41%	105,202	(416,185)	–	–
2. Other domestic shares						
Domestic natural person shares	971	0.10%	394	328	1,693	0.13%
3. Foreign shares						
Foreign corporate shares	–	–	–	–	–	–
Total number of restricted shares	311,954	32.51%	105,596	(415,857)	1,693	0.13%
II. Unrestricted shares						
1. RMB ordinary shares	487,417	50.80%	214,152	415,857	1,117,426	83.18%
2. Overseas listed foreign shares	160,151	16.69%	64,060	–	224,211	16.69%
Total number of unrestricted shares	647,568	67.49%	278,212	415,857	1,341,637	99.87%
III. Total shares	959,522	100.00%	383,808	–	1,343,330	100.00%

There was an increase in the share capital of the Company during the year following the implementation of the capitalisation and bonus rights issue proposal. The increase in share capital has been verified by Ernst & Young Hua Ming who has issued a capital verification report (2008) Yan Zi No. 60438556_H01.

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33. Share capital (continued)

2007

	Opening balance		Increase/ (decrease) during the year	Closing balance	
	Number of shares	Percentage	Number of shares	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	100.00%	—	959,522	100.00%

34. Capital reserves

2008

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium	5,462,657	—	(383,808)	5,078,849
Equity component of bonds cum warrants	—	580,210	—	580,210
Change in shareholders' equity of investee net of gains/losses under equity method and other capital reserves	44,527	4,763	(9,876)	39,414
Equity settled transaction	300,148	299,551	—	599,699
	5,807,332	884,524	393,684	6,298,172

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VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. Capital reserves (continued)

2007

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium	5,462,657	—	—	5,462,657
Change in shareholders' equity of investee net of gains/losses under equity method and other capital reserves	44,527	—	—	44,527
Equity settled transaction	2,480	297,668	—	300,148
	5,509,664	297,668	—	5,807,332

35. Surplus reserves

2008

	Opening balance	**Increase during the period**	**Decrease during the period**	**Closing balance**
Statutory surplus reserves	**1,364,758**	**67,062**	**—**	**1,431,820**

2007

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Statutory surplus reserves	1,331,059	33,699	—	1,364,758

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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36. Retained profits

	2008	2007
Retained profits at the beginning of the year	**4,071,111**	2,996,580
Net profit	**1,660,199**	1,252,158
Less: Statutory surplus reserves	**(67,062)**	(33,699)
Dividend payable	**(239,880)**	(143,928)
Proposed dividend at the end of the year	**(402,999)**	(239,880)
Retained profits at the end of the year	**5,021,369**	3,831,231

37. Minority interests

The minority interests of the major subsidiaries are as follows:

	2008	2007
Anhui Wantong Posts and Telecommunications Company, Limited	**34,207**	29,344
ZTE Kangxun Telecom Co., Ltd.	**262,857**	217,905
Shenzhen Changfei Investment Company, Limited	**235,971**	194,184
南京中興軟創科技股份有限公司	**106,911**	76,883
Congo-Chine Telecom S.A.R.L	**74,089**	45,609
Wuxi Zhongxing Optoelectronics Technologies Company, Limited	**39,080**	32,211
	753,115	596,136

38. Operating revenue and costs

	2008	2007
Revenue	**44,048,684**	34,766,214
Other income	**244,743**	10,967
	44,293,427	34,777,181

	2008	2007
Revenue	**29,450,787**	22,998,782
Other income	**41,743**	5,759
	29,492,530	23,004,541

Sales to the top five customers of the Group generated revenue of RMB16,926,252,000 and RMB14,108,829,000 in 2008 and 2007 respectively, accounting for 38.21% and 40.57% of the operating revenue of the Group respectively.

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VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. Taxes and surcharges

	2008	2007
Business tax	**277,835**	168,775
City maintenance and construction tax	**29,093**	12,652
Education surcharge	**48,655**	19,739
Others	**60,271**	79,100
	415,854	280,266

For business tax standards, please refer to Note IV, "taxation".

40. Finance Expenses

	2008	2007
Interest expenses	**690,174**	328,301
Less: Interest income	**(112,786)**	(47,536)
Loss on exchange	**487,248**	45,796
Cash discounts and interest subsidy	**56,683**	71,912
Bank charges	**186,935**	95,898
	1,308,254	494,371

41. Impairment Losses

	2008	2007
Bad debt provisions	**472,954**	714,042
Inventories provisions/(reversal)	**(53,596)**	75,098
	419,358	789,140

42. Gains from changes in fair values

	2008	2007
Derivative financial instruments	**(128,328)**	115,566

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VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

43. Investment income

	2008	2007
Investment Income from long-term investment under equity method	**19,877**	25,444
Dividend received	**3,257**	4,944
Investment Income from derivative financial assets	**73,232**	23,529
Investment Income from disposal of equity investment	**26,300**	5,520
	122,666	59,437

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

44. Non-operating Income/Non-operating Expenses

Non-operating Income

	2008	2007
Refund of VAT on software products*	**841,632**	714,796
Financial subsidies on essential new products	**131,037**	70,963
Preferential financial subsidies on new products	**107,471**	55,611
Others	**18,156**	64,763
Total	**1,098,296**	906,133

* 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.

Non-operating Expenses

	2008	2007
Penalties	**47,149**	103,440
Others	**33,997**	75,713
Total	**81,146**	179,153

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VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

45. Income Tax

	2008	2007
Current Income Tax	**450,104**	361,110
Deferred Income Tax	**(99,496)**	(84,827)
	350,608	276,283

A reconciliation between income tax and total profit was as follows:

	2008	2007
Consolidated total profit	**2,262,543**	1,727,734
Tax at statutory tax rate (Note 1)	**565,636**	570,152
Lower tax rate for specific provinces or local authority	**(226,254)**	(310,992)
Profits and losses attributable to jointly-controlled entities and associates	**201**	(1,869)
Income not subject to tax	**(105,676)**	(277,864)
Expenses not deductible for tax	**195,330**	229,342
Tax losses utilised from previous years	**(135,957)**	(1,680)
Tax losses of subsidiaries	**57,328**	69,194
Tax charge at the Group's effective rate	**350,608**	276,283

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.

46. 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.

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VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

46. Earnings per share (continued)

Calculations of basic and diluted earnings per shares were as follows:

	2008	2007
Earnings		
Net profit attributable to ordinary equity holders of the parent for the year	**1,660,199**	1,252,158
Shares		
Weighted average number of ordinary shares of the parent (Note 1)	**1,343,330**	1,343,330
Diluting effect — weighted average number of ordinary shares:		
Restricted Shares under share incentive scheme	**36,945**	13,434
Adjusted weighted average number of ordinary shares of the parent in issue (Note 2)	**1,380,275**	1,356,764

Note 1: In July 2008, the Company enlarged its share capital by 383,808,660 shares by way of capitalisation of capital reserves. After the capitalisation, the total number of ordinary shares in issue was 1,343,330,310 shares. The amounts of earnings per share for the reported periods were computed on the basis of the adjusted number of shares.

Note 2: The average market price of the ordinary shares during the year is less than the exercise price of the warrants, therefore, they are not considered in the calculation of diluted earnings per share for the year ended 31 December 2008.

47. Cash paid or received relating to other operating activities

The majority of the above cashflow is as follows:

	2008	2007
Cash received relating to other operating activities:		
Government subsidies	**93,623**	127,117
Interest income	**112,786**	47,536

	2008	2007
Cash paid relating to other operating activities		
Selling and distribution costs	**3,082,261**	2,314,410
Administrative expenses and research and development cost	**2,414,955**	2,232,298

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VI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

48. Cash flows from operating activities

	2008	2007
Reconciliation of net profit to cash flows from operating activities		
Net profit	**1,911,935**	1,451,451
Add: Provision for impairment of assets	**419,358**	789,140
Depreciation of fixed assets	**584,689**	506,870
Amortisation of intangible assets and deferred development costs	**115,380**	103,051
Amortisation of long-term deferred assets	**14,356**	6,921
Loss on disposal of fixed assets, intangible assets and other long-term assets	**37,154**	23,927
Gain from changes in fair value	**128,328**	(115,566)
Finance expenses	**896,990**	382,704
Investment income	**(122,666)**	(59,437)
Increase in deferred tax assets	**(48,055)**	(84,827)
Decrease in deferred tax liabilities	**(51,441)**	—
Increase in inventories	**(1,494,937)**	(3,280,829)
Increase in operating receivables	**(3,193,018)**	(5,911,494)
Increase in operating payables	**4,113,114**	5,983,235
Share incentive scheme costs	**299,551**	297,668
Decrease/(increase) in pledged bank deposits	**37,175**	(4,424)
Net cash flows from operating activities	**3,647,913**	88,390

49. Cash and cash equivalents

	2008	2007
Cash		
Including: Cash on hand	**15,299**	9,560
Bank deposit without restriction	**11,328,861**	6,289,324
Other currency without restriction	**—**	10,865
Cash and cash equivalents at end of year	**11,344,160**	6,309,749
Pledged bank deposits	**136,246**	173,421

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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. In view of the similarities among certain products in risk exposures and profitability and in conformity to customary classification adopted by the industry, the Group has decided to change the previous five product categories by combining the wireless communications systems category, optical communications and data communications systems category and wireline switch and access systems category into the category of networks, while the disclosure and composition of the other two categories will remain unchanged.

Summary details of the business segments are as follows:

(a) The networks (communications systems) segment includes the wireless communications, the wireline switch and access and the optical and data communications.

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

(c) 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)

1. Business segments

	2008			
	Network (communications systems)	**Handset**	**Telecommunications software systems, services and other products**	**Total**
Revenue				
External revenue	28,963,799	9,692,563	5,637,065	44,293,427
Results				
Segment results	6,947,712	1,017,539	1,107,276	9,072,527
Unallocated revenue				1,098,296
Unallocated costs				(6,491,575)
Finance costs				(1,308,254)
Gains/losses arising from the change in fair value of tradable financial assets				(128,328)
Gains from investment in jointly controlled entities				–
Gains from investment in associates				19,877
Total profit				2,262,543
Income tax				(350,608)
Net profit				1,911,935
Total assets				
Segment assets	22,468,395	4,931,776	4,364,533	31,764,704
Unallocated assets				19,101,217
Subtotal				50,865,921
Total liabilities				
Segment liabilities	3,399,777	149,854	808,813	4,358,444
Unallocated liabilities				31,323,930
Subtotal				35,682,374
Other segment information				
Capital expenditure	1,353,308	314,210	267,601	1,935,119
Depreciation and amortisation	499,501	116,044	98,880	714,425

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VII. SEGMENT INFORMATION (continued)

1. Business segments (continued)

	2007			
	Network (communications systems)	Handset	Telecommunications software systems, services and other products	Total
Revenue				
External revenue	22,567,491	7,645,126	4,564,564	34,777,181
Results				
Segment results	6,136,312	677,571	283,366	7,097,249
Unallocated revenue				906,133
Unallocated costs				(5,921,110)
Finance costs				(494,371)
Gains/losses arising from the change in fair value of tradable financial assets				115,566
Gains from investment in jointly controlled entities				784
Gains from investment in associates				23,483
Total profit				1,727,734
Income tax				(276,283)
Net profit				1,451,451
Total assets				
Segment assets	16,994,523	3,965,018	4,078,282	25,037,823
Unallocated assets				14,191,733
Subtotal				39,229,556
Total liabilities				
Segment liabilities	2,319,950	183,649	584,934	3,088,533
Unallocated liabilities				23,252,615
Subtotal				26,341,148
Other segment information				
Capital expenditure	1,184,153	263,014	358,056	1,805,223
Depreciation and amortisation	403,983	89,729	123,130	616,842

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VII. SEGMENT INFORMATION (continued)

2. Geographical segments

	2008				
	The PRC	**Asia (excluding the PRC)**	**Africa**	**Others**	**Total**
Operating revenue	**17,466,429**	**10,432,933**	**9,311,123**	**7,082,942**	**44,293,427**
Total assets	**29,947,902**	**9,779,680**	**7,558,069**	**3,580,270**	**50,865,921**

	2007				
	The PRC	Asia (excluding the PRC)	Africa	Others	Total
Operating revenue	14,686,596	9,679,371	5,484,831	4,926,383	34,777,181
Total assets	27,077,530	9,653,953	1,197,665	1,300,408	39,229,556

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 Company are set out as follows:

1) The ultimate holding company;

2) The Company's subsidiaries;

3) Other enterprises under common control with the Company by the same parent company;

4) Investors exercising common control over the Company;

5) Investors exercising significant influence over the Company;

6) The Group's joint ventures;

7) The Group's associates;

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VIII. THE RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (continued)

1. Related party relationships (continued)

8) Major investors of the Company and their close family members;

9) Key management personnel of the Company 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 Company 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	35.52%	35.52%	19222451-8	RMB100 million

The company's ultimate controlling party is the parent company.

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.	Equity investor of the shareholder of the Company's controlling shareholder	715233457
Shenzhen Gaodonghua Communication Technology Co., Ltd.	Equity investor of the shareholder of the Company's controlling shareholder	74323392-1
Shenzhen Shenglongfeng Industrial Co., Ltd.	Equity investor of the shareholder of the Company's controlling shareholder	72619249-4
北京協力超越科技有限公司	Equity investor of the shareholder of the Company's controlling shareholder	76678817-X
Lishan Microelectronics Research Institute	The Company's shareholder	43523013-9
Jilin Posts and Telecommunications Equipment Company	The Company's shareholder	12391552-6
Hunan Nantian (Group) Co., Ltd	The Company's shareholder	18380498-2
Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	Under the same controlling shareholder as the Company	75049913-8

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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: (continued)

	Relationship with connected parties	Organization code
Zhongxing Xinzhou Complete Equipment Co., Ltd.	Under the same controlling shareholder as the Company	78390928-7
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
南昌興飛科技有限公司	Associate	67499255-2
中移鼎訊通信股份有限公司	Associate	76496951-6
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
Shenzhen Zhongxing Xinyu FPC Company, Limited.	Under the same controlling shareholder as the Company	75252829-7
深圳市中興環境儀器有限公司	Under the same controlling shareholder as the Company	76195854-3
Beijing Zhongxing Intelligent Transportation Systems Ltd.	Company controlled by key management personnel of the Company	72260457-8
Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Company controlled by key management personnel of the Company	71522427-8
Shenzhen Zhongxing Development Company Limited	Company controlled by key management personnel of the Company	75048467-3
Chongqing Zhongxing Development Company Limited	Company controlled by key management personnel of the Company	76591251-1
Shenzhen Zhongxing International Investment Co., Ltd.	Equity investor of the shareholder of the Company's controlling shareholder	77878419-2

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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:*

	2008	2007
Shenzhen Zhongxing Information Technology Co., Ltd.	8,196	7,360
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	132	—
ZTE IC Design Co., Ltd	46	3,145
Shenzhen Zhongxing WXT Equipment Company, Ltd.	—	845
Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	77	93
中興軟件技術（南昌）有限公司	20,237	7,039
Shenzhen Zhongxing Xinyu FPC Company, Limited	39	245
Shenzhen Smart Electronics Company, Limited.	—	1,054
深圳市聚飛光電有限公司	—	1,024
Beijing Zhongxing Intelligent Transportation Systems Ltd.	23,377	30,169
南昌興飛科技有限公司	1,429	—
Shenzhen Weigao Semiconductor Company, Limited	9,629	—
中移鼎訊通信股份有限公司	51,987	—
	115,149	50,974

In 2008, sales to related parties accounted for 0.26% of the Group's total sales. (2007: 0.13%).

(2) *Purchase of raw materials from connected parties:*

	2008	2007
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	522,828	492,233
Shenzhen Zhongxing WXT Equipment Company, Ltd.	59,973	124,359
Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	186,191	162,816
Shenzhen Zhongxing Information Technology Co., Ltd	1,655	25,093
Xi' an Microelectronics Technology Research Institute	6,699	5,705
Shenzhen Zhongxing Xinyu FPC Company, Limited	29,182	14,952
ZTE IC Design Co., Ltd	45,211	71,695
Wuxi KaiEr Technology Company, Limited	28,052	36,870
Shenzhen Decang Technology Company Ltd.	35,962	20,924
深圳市富德康電子有限公司	39,051	—
中興軟件技術（南昌）有限公司	361	1,503
深圳市聚飛光電有限公司	10,894	13,698
Mobi Antenna Technologies (Shenzhen) Co., Ltd.	221,104	240,901
Shenzhen Smart Electronics Company, Ltd.	186	924
Zhongxing Xinzhou Complete Equipment Co., Ltd.	45,132	36,114
Shenzhen Shenglongfeng Industrial Co., Ltd.	11,303	3,137
Shenzhen Weigao Semiconductor Company, Limited	19,597	15,093
	1,263,381	1,266,017

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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: (continued)

In 2008, purchases from related parties accounted for 4.28% of the Group's total purchase. (2007: 5.88%).

(3) Leasing property to related parties:

	2008	2007
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	**28,535**	19,018
Shenzhen Zhongxing Development Co., Ltd.	**33,143**	21,418
Chongqing Zhongxing Development Co., Ltd.	**858**	—
	62,536	40,436

(4) Other major related transaction

	2008		2007	
	amount	**percentage**	amount	percentage
Salary of key management personnel	**10,021**	**0.18%**	10,181	0.21%

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 30 -115 yuan per square metres during the year.

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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	2008	2007
Bills receivable	Beijing Zhongxing Intelligent Transportation Systems Ltd.	**3,800**	–
	中移鼎訊通信股份有限公司	**4,965**	–
		8,765	–
Trade receivables	Shenzhen Zhongxingxin Telecommunication Equipment Company, Limited	**943**	943
	Shenzhen Zhongxing Information Technology Co., Ltd.	**6,102**	194
	Xi'an Microelectronics Technology Research Institute	**–**	9
	ZTE IC Design Co., Ltd	**19**	–
	中興軟件技術（南昌）有限公司	**3,924**	200
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	**54**	54
	Zhongxing Xinzhou Complete Equipment Co., Ltd.	**–**	129
	Beijing Zhongxing Intelligent Transportation Systems Ltd.	**6,706**	78
	深圳市聚飛光電有限公司	**–**	23
	南昌興飛科技有限公司	**1,672**	–
	中移鼎訊通信股份有限公司	**47**	–
		19,467	1,630

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VIII. THE RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (continued)

5. Amounts due from/to related parties (continued)

Item	Names of related parties	2008	2007
Prepayments	ZTE IC Design Co., Ltd	**182**	182
	Shenzhen Zhongxing Information Technology Co., Ltd.	**—**	3,608
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	**1,106**	—
		1,288	3,790
Dividend receivable	Shenzhen Zhongxing Xinyu FPC Company, Limited	**909**	2,271
	深圳市聚飛光電有限公司	**1,125**	—
		2,034	2,271
Other receivables	Shenzhen Zhongxing Development Co., Ltd.	**—**	7
	WuXi KaiEr Science and Technology Company, Limited	**—**	6
		—	13
Bills payable	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	**641**	12,481
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	**—**	1,184
	Shenzhen Smart Electronic Company, Ltd.	**—**	234
	ZTE IC Design Co., Ltd	**74**	—
	Shenzhen Decang Technology Company Limited	**8,577**	8,623
	WuXi KaiEr Science and Technology Company, Limited	**4,180**	784
	Shenzhen Zhongxing Xinyu FPC Company, Limited	**2,953**	12
	Mobi Antenna Technologies (Shenzhen) Co., Ltd.	**9**	—
	深圳市富德康電子有限公司	**1,026**	—
	Shenzhen Weigao Semiconductor Company, Limited	**59**	—
		17,519	23,318

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VIII. THE RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (continued)

5. Amounts due from/to related parties (continued)

Item	Names of related parties	2008	2007
Trade payables	Shenzhen Smart Electronics Company, Limited.	13	191
	Zhongxing Xinzhou Complete Equipment Co., Ltd.	3,235	4,118
	Shenzhen Zhongxingxin Telecommunication Equipment Company, Limited	129,468	88,023
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	597	14,918
	Shenzhen Zhongxing Information Technology Co., Ltd.	7,482	12,612
	Shenzhen Zhonxing Xinyu FPC Company, Limited	1,296	3,642
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	13,500	1,734
	Shenzhen Gaodonghua Communication Technology Co., Ltd.	176	176
	ZTE IC Design Co., Ltd	7,122	5,254
	Shenzhen Decang Technology Company Limited	12,216	7,055
	WuXi KaiEr Science and Technology Company, Limited	2,723	6,342
	Mobi Antenna Technologies (Shenzhen) Co., Ltd.	59,006	41,367
	深圳市富德康電子有限公司	3,012	7,530
	Shenzhen Weigao Semiconductor Company, Limited	215	1,686
	Shenzhen Shenglongfeng Industrial Co., Ltd.	2,331	1,014
	Xi'an Microelectronics Technology Research Institute	249	345
	中興軟件技術（南昌）有限公司	—	422
	深圳市聚飛光電有限公司	319	—
		242,960	196,429
Receipt in advance	Shenzhen Weigao Semiconductor Company, Limited	4,644	4,644
	Shenzhen Zhongxing Information Technology Co., Ltd.	577	12
	北京協力超越科技有限公司	—	10
	Beijing Zhongxing Intelligent Transportation Systems Ltd.	1,644	59
	Xi'an Microelectronics Technology Research Institute	—	2
	中興軟件技術（南昌）有限公司	6,865	—
		13,730	4,727
Dividend payable	Shenzhen Zhongxing WXT Equipment Company, Ltd.	12,087	12,087
		12,087	12,087

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VIII. THE RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (continued)

5. Amounts due from/to related parties (continued)

Item	Names of related parties	2008	2007
Other payables	Lishan Microelectronics Research Institute	**65**	65
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	**12**	12
	Jilin Posts and Telecommunications Equipment Company	**65**	65
	Shenzhen Zhongxing Information Technology Co., Ltd.	**48**	48
	Shenzhen Smart Electronic Company, Ltd.	**2,015**	300
	Hunan Nantian (Group) Co., Ltd	**130**	130
	Shenzhen Zhongxing International Investment Company Limited	**4**	—
	深圳市中興環境儀器有限公司	**30**	—
	Shenzhen Zhongxing Development Co., Ltd.	**215**	—
	Shenzhen Zhongxingxin Telecommunication Equipment Company, Limited	**308**	313
		2,892	933

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

IX. CONTINGENT EVENTS

1. In November 2005, a customer instituted litigation against the Company and its subsidiary 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. In December 2008, the Jiangsu Provincial High Court handed down its judgement for the first trial, which ruled that: (i) RMB35 million with interest is to be refunded to the customer by the subsidiary; (ii) losses of the subsidiary amounting to RMB11,666,000 are to be indemnified by the customer; and (iii) the Company is to be jointly responsible for the aforesaid liability of the subsidiary. The Company filed an appeal with the Supreme People's Court after receiving the first trial judgement and is currently awaiting the second trial. A real estate owned by the Company, which is located in Nanjing with an original value of RMB117.2 million, is pledged for the litigation. During the year, the trial court of the case lifted the order of freezing the Company's cash in bank and on hand of RMB31 million. As at the date of approval of the financial statements, the Group had not made any payments of compensation pursuant to the aforesaid judgement. Based on the legal opinion furnished by lawyers engaged by the Company, the directors are of the opinion that the aforesaid litigation will not have any material adverse impact on the financial conditions and operating results of the Group and no provision was made in respect of such claims in the financial statements.

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2. On 16 December 2005, a supplier instituted arbitration against the Company to demand indemnity from the Company for a breach of contract and infringement of intellectual property rights in a total amount of USD36.45 million (approximately RMB249,121,000). As at the date of approval of the financial statements, the supplier had applied to the arbitration court for the withdrawal of its claim and the case, although the Company had yet to receive an official notice from the arbitration court as at the date of approval of the financial statements. Based on the legal opinion furnished by lawyers engaged by the Company, the directors are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group.

3. In August 2006, a customer instituted arbitration against the Company to demand indemnity from the Company in the amount of Rs. 762,982,000 (approximately RMB65,944,000). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract to demand for damages. In February 2008, the arbitration authorities issued its award ruling that an indemnity of Rs. 328,040,000 (approximately RMB28,352,000) is to be paid by the Company. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a counter-claim against the customer's breach of contract. As at the date of approval of the financial statements, the Group had not made any payments of compensation pursuant to the aforesaid judgement. The legal department of the Company is of the view that it is difficult to predict the final outcome of the case at this stage. In view of the above, the Group had made provisions in the financial statements based on the arbitration award. The directors are of the opinion that the aforesaid arbitration will not have any material adverse impact on the financial conditions and operating results of the Group.

4. In July 2008, an agent filed arbitration against the Company demanding the payment of agency fees and interests with a total amount of USD35,819,000 (approximately RMB244,808,000). The case was heard before the South China Sub-Commission of the China International Economic and Trade Arbitration Commission during 17 to 19 January 2009 and is currently pending arbitration award. As at the date of approval of the financial statements, the Company is still awaiting the arbitration award. Based on the legal opinion furnished by lawyers engaged by the Company, the directors are of the opinion that the aforesaid litigation will not have any material adverse impact on the financial conditions and operating results of the Group and no provision was made in respect of such claims in the financial statements.

5. At the balance sheet date, the group had outstanding guarantees given to banks in respect of performance bonds amounting to RMB8,245,934,000.

X. OPERATING LEASE ARRANGEMENT

Significant operating lease:

According to the lease contract signed with lessor, the group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2008	2007
Within one year (including first year)	**264,396**	183,471
In the first to second years (including second year)	**97,093**	122,686
In the second to third years (including third year)	**40,807**	42,266
After third years	**45,487**	44,641
	447,783	393,064

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XI. COMMITMENTS

	2008	2007
Capital commitments		
Contracted but not provided for	**301,419**	582,263
Authorised by the Board but not yet contracted	**5,875,869**	—
Investment commitments		
Contracted but not implemented completely	**265,702**	255,234

XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS

Financial risk management objective and policies

The main financial instruments of the group, except for derivatives, also include bank loans, cash and bank balances 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.

The main risk which comes from the Group's financial instruments is the credit risk, liquidity risk and market risk.

1. *Classification of financial instruments*

The book values of various financial instruments as at the balance sheet date were as follows:

	2008 Financial assets			
	Financial assets dealt with at fair value through current profit or loss	Loans and other receivables	Available-for-sale financial assets	Total
Cash and bank balances	—	11,480,406	—	11,480,406
Available-for-sale financial assets	—	—	251,148	251,148
Bills receivable	—	1,578,473	—	1,578,473
Trade receivables and long term trade receivables	—	10,584,503	—	10,584,503
Factored trade receivables and Factored long-term trade receivables	—	2,412,509	—	2,412,509
Other receivables	—	757,847	—	757,847
	—	26,813,738	251,148	27,064,886

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XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS (CONTINUED)

Financial risk management objective and policies (continued)

***1. Classification of financial instruments* (continued)**

	2008 Financial liabilities		
	Financial liabilities dealt with at fair value through current profit or loss	Other Financial liabilities	Total
Bank loans	—	6,957,032	6,957,032
Bills payable	—	6,318,059	6,318,059
Trade payables	—	9,495,946	9,495,946
Trade receivables and bank advances on factored trade receivables	—	2,412,509	2,412,509
Other payables (exclude prepaid expense)	—	1,205,453	1,205,453
Derivative financial instruments	12,560	—	12,560
Bonds cum warrants	—	3,514,652	3,514,652
Other non-current liabilities	39,752	—	39,752
	52,312	29,903,651	29,955,963

	2007 Financial assets			
	Financial assets dealt with at fair value through current profit or loss	Loans and other receivables	Available-for-sale financial assets	Total
Cash and bank	—	6,483,170	—	6,483,170
Derivative financial assets	123,644	—	—	123,644
Available-for-sale financial assets	—	—	43,464	43,464
Bills receivable	—	1,656,258	—	1,656,258
Trade receivables and long-term trade receivables	—	7,679,956	—	7,679,956
Factored trade receivables and factored long-term trade receivables	—	3,296,377	—	3,296,377
Other receivables	—	689,889	—	689,889
	123,644	19,805,650	43,464	19,972,758

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XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS (CONTINUED)

Financial risk management objective and policies (continued)

1. *Classification of financial instruments* (continued)

	2007		
	Financial liabilities		
	Financial liabilities dealt with at fair value through current profit or loss	Other Financial liabilities	Total
Bank loans	—	6,488,653	6,488,653
Bills payable	—	3,946,429	3,946,429
Trade payables	—	7,856,240	7,856,240
Trade receivables and bank advances on factored trade receivables	—	3,296,377	3,296,377
Other payables (exclude prepaid expense)	—	1,049,642	1,049,642
Derivative financial liabilities	7,876	—	7,876
Other non-current liabilities	38,097	—	38,097
	45,973	22,637,341	22,683,314

2. *Credit risk*

Credit risk is the risk arising from default of the counterparty.

The Group only trades 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 Group does not offer credit terms in respect of trades that are not settled in the book currency of the business entity concerned, unless specifically approved by the Group's credit control department.

The Group's other financial assets, which comprise cash and bank balances, available- for-sale financial assets, other receivables 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 30.04%, due to the risk is low, so the group doesn't have significant credit risk.

Since the Group trades only with recognised 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 VI.4, 6 and 10.

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XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS (CONTINUED)

Financial risk management objective and policies (continued)

3. Liquidity risk

Liquidity risk refers to the risk of the lack of funds in performing obligations relating to financial liabilities.

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 objective is to maintain balance between the continuity and flexibility of financing through the use of bank loans, bonds cum warrants and other interest-bearing loans. With the exception of the non-current portion of bank borrowings, all borrowings are repayable within one year.

An analysis of the maturities of financial assets and financial liabilities based on undiscounted contract cash flow is summarised as follows:

	2008					
	Financial assets					
	Due	Within one year	1 to 2 year	2 to 3 year	After 3 year	Total
Cash and bank	11,344,160	136,246	–	–	–	11,480,406
Bills receivable	1,578,473	–	–	–	–	1,578,473
Trade receivables and long term trade receivables	7,346,564	2,625,931	278,128	148,467	185,413	10,584,503
Factored trade receivables and Factored long-term trade receivables	2,412,509	–	–	–	–	2,412,509
Other receivables	757,847	–	–	–	–	757,847
Available-for-sale financial assets	251,148	–	–	–	–	251,148
	23,690,701	2,762,177	278,128	148,467	185,413	27,064,886

	2008					
	Financial liabilities					
	Due	Within one year	1 to 2 year	2 to 3 year	After 3 year	Total
Bank loans	–	5,664,485	1,006,024	5,000	281,523	6,957,032
Bank advances on trade receivables and long-term trade receivables	2,412,509	–	–	–	–	2,412,509
Derivative financial liabilities	12,560	–	–	–	–	12,560
Bills payable	6,318,059	–	–	–	–	6,318,059
Trade payables	9,495,946	–	–	–	–	9,495,946
Salary & welfare payables	1,443,017	–	–	–	–	1,443,017
Taxes payable (exclude income tax)	(1,324,993)	–	–	–	–	(1,324,993)
Dividend payable	22,750	–	–	–	–	22,750
Other payables (exclude prepaid expense)	1,205,453	–	–	–	–	1,205,453
Other non-current liabilities	–	–	–	–	39,752	39,752
	19,585,301	5,664,485	1,006,024	5,000	321,275	26,582,085

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XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS (CONTINUED)

Financial risk management objective and policies (continued)

3. Liquidity risk (continued)

	2007 Financial assets					
	Due	Within one year	1 to 2 year	2 to 3 year	After 3 year	Total
Cash and bank	6,309,749	173,421	—	—	—	6,483,170
Derivative financial assets	—	123,644	—	—	—	123,644
Bills receivable	1,656,258	—	—	—	—	1,656,258
Trade receivables and long-term trade receivables	5,158,593	1,940,356	437,777	48,160	95,070	7,679,956
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
	17,154,330	2,237,421	437,777	48,160	95,070	19,972,758

	2007 Financial liabilities					
	Due	Within one year	1 to 2 year	2 to 3 year	After 3 year	Total
Bank loans	—	4,403,424	1,095,398	221,498	768,333	6,488,653
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	1,027,431	—	—	—	—	1,027,431
Taxes payable (exclude income tax)	(1,741,832)	—	—	—	—	(1,741,832)
Dividend payable	41,180	—	—	—	—	41,180
Other payables (exclude prepaid expense)	1,049,642	—	—	—	—	1,049,642
Other non-current liabilities	—	—	—	—	38,097	38,097
	15,483,343	4,403,424	1,095,398	221,498	806,430	22,010,093

4. 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. The Group's risk exposure to movements in market interest rates is mainly related to the Group's long-term liability bearing interest at floating rates.

On 31 December 2008, the bank loans of the Group and the Company including fixed rate debts and floating debts based on LIBOR. The Group and the Company had 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 2% and 11.5%. On 31 December 2008, approximately 46% (2007: 61%) of the Group's interest-bearing borrowings bore interest at fixed rates.

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XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS (CONTINUED)

Financial risk management objective and policies (continued)

4. Interest rate risk (continued)

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 RMB3.7 million and RMB2.9 million for the year ended 31 December 2008 and 2007 respectively.

5. 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 may lead to the changes in the Group's profit before tax, with all other variables held constant.

	US dollars exchange rate increase/ decrease	Impact on the Group's profit before tax
2008		
Weaker RMB against US dollars	**+3%**	**26,855**
Stronger RMB against US dollars	**–3%**	**(26,855)**
2007		
Weaker RMB against US dollars	+5%	40,344
Stronger RMB against US dollars	–5%	(40,344)

	EUR exchange rate increase/ decrease	Impact on the Group's profit before tax
2008		
Weaker RMB against EUR	**+5%**	**61,722**
Stronger RMB against EUR	**–5%**	**(61,722)**
2007		
Weaker RMB against EUR	+5%	52,502
Stronger RMB against EUR	–5%	(52,502)

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XIII. POST BALANCE SHEET EVENT

The Board proposes to increase the registered capital of the Company by capitalising capital reserves of the Company, pursuant to which Bonus Shares will be allotted and issued to the Shareholders on the basis of 3 Bonus Shares for every 10 Shares held by the Shareholders on the Record Date.

The registered capital of the Company will increase from RMB1,343,330,310 to RMB1,746,329,403 upon completion of the capitalisation. Based on a total of 1,343,330,310 shares in issue on the Record Date, 402,999,093 Bonus Shares will be issued by the Company, of which 67,263,437 Shares are Bonus H Shares and 335,735,656 are Bonus A Shares. The capitalisation is subject to approval by the shareholders at the Annual General Meeting.

XIV. COMPARATIVE DATA

The presentation of comparative data is in compliance with relevant requirements for the year.

XV. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 March 2009.

XVI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Trade receivables

	2008			2007		
	Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
RMB	**3,380,510**	**1.0000**	**3,380,510**	2,533,099	1.0000	2,533,099
USD	**1,173,369**	**6.8346**	**8,019,507**	717,414	7.3046	5,240,422
EUR	**164,686**	**9.6590**	**1,590,702**	93,039	10.6669	992,437
Others			**195,923**			179,648
Total			**13,186,642**			8,945,606

Aging analysis of trade receivables was as follows:

	2008	2007
Within one year	**11,239,738**	8,327,908
Between one to two years	**1,939,666**	928,442
Between two to three years	**765,127**	359,657
Over three years	**475,326**	217,447
	14,419,857	9,833,454
Less: Bad debt provision of trade receivables	**(1,233,215)**	(887,848)
	13,186,642	8,945,606

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XVI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

1. Trade receivables (continued)

	2008				2007			
	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	**7,993,118**	**55%**	**780,827**	**10%**	2,650,376	27%	610,258	23%
Not significant balances	**6,426,739**	**45%**	**452,388**	**7%**	7,183,078	73%	277,590	4%
	14,419,857	**100%**	**1,233,215**	**9%**	9,833,454	100%	887,848	9%

	2008	2007
The top five balances of trade receivables	**3,765,089**	4,013,185
Percentage of the total balance of trade receivables	**26.11%**	40.81%

No outstanding amount due from shareholders holding 5% or more in the share as at the end of the year (31 December 2007: Nil).

Transfer of risk and rewards of trade receivables not satisfied the derecognition condition is separately classified as "Factored trade receivables" amounting to RMB1,783,941,000(31 December 2007: RMB278,668,000).

2. Other receivables

	2008	2007
Within one year	**1,082,947**	679,584
Between one to two years	**228,207**	64,419
Between two to three years	**28,393**	487,966
Over three years	**102,630**	257,393
	1,442,177	1,489,362
Less: bad debt provision for other receivables	**—**	—
	1,442,177	1,489,362

	2008	2007
The top five balances of trade receivables	**1,176,885**	521,020
Percentage of the total balance of other receivables	**81.60%**	34.98%

No outstanding amount due from shareholders holding 5% or more in the share as at the end of the year (31 December 2007: Nil).

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XVI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

3. Available-for-sale financial assets

	2008	2007
Available for sale equity instruments	**243,198**	41,464

2008

	Opening balance of the year	**Additions**	**Reductions**	**Closing balance of the year**
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**
Beijing Zhongxing Intelligent Transportation Systems Ltd.	**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**
航天科技投資控股有限公司	**—**	**201,734**	**—**	**201,734**
	41,464	**201,734**	**—**	**243,198**

2007

	Opening balance of the year	Additions	Reductions	Closing balance of the year
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)	—
Beijing Zhongxing Intelligent Transportation Systems Ltd.	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

4. Long-term trade receivables

	2008	2007
Long-term trade receivables	**1,350,926**	583,103
Less: Long-term trade receivables bad debt provision	**(136,888)**	(181,388)
	1,214,038	401,715

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 RMB753,568,000 (31 December 2007: RMB3,142,709,000).

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XVI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments

		2008	2007
Equity investment under cost method			
Subsidiaries	(1)	1,768,698	577,351
Equity investment under equity method			
Associates	(2)	92,127	83,684
Less: Impairment for long-term equity investment	(3)	(113,065)	(113,065)
		1,747,760	547,970

2008

(1) Subsidiaries

	Initial Amount	Opening balance of the year	Additions	Reductions	Closing balance of the year
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	396,164		449,364
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
Yangzhou Zhongxing Mobile Telecom Company, Limited	3,900	3,900	–	–	3,900
Shenzhen Zhongxing Mobile Technology Co., Ltd.	45,799	45,799	–	–	45,799
南京中興軟創科技股份有限公司	24,282	23,982	–	–	23,982
ZTE (UK) Ltd.	4,533	5,286	–	–	5,286
ZTE Do Brasil LTDA	10,058	18,573	–	–	18,573
Shenzhen Zhongxing Software Company Limited	38,609	36,500	–	–	36,500
ZTE Integration Telecom Ltd.	41,250	41,250	11	–	41,261
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

NOTES TO FINANCIAL STATEMENTS

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

XVI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

(1) Subsidiaries (continued)

	Initial Amount	Opening balance of the year	Additions	Reductions	Closing balance of the year
ZTE Holdings (Thailand) Co., Ltd.	10	10	–	–	10
ZTE (Thailand) Co., Ltd.	2,044	5,040	–	–	5,040
Shenzhen Special Equipment Company, Limited	540	540	–	–	540
ZTE Telecom India Private Ltd.	1,654	1,654	195,172	–	196,826
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
Xi'an Zhong Xing Jing Cheng Communication Co., Ltd.	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
Shenzhen Zhongxing Liwei Technology Company, Limited	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	–	–	5,000
西安中興新軟件有限責任公司	600,000	–	600,000	–	600,000
		577,351	1,191,347	–	1,768,698

(2) Associates

	Share of registered capital	Initial investment	Accumulated additional/ (reduced) investment cost	Equity adjustment: 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	Closing balance of the year
		1	2			3		4	5=1+2+3+4
ZTE IC Design Co., Ltd	29.4%	30,000	(1,844)	9,658	–	(699)	–	–	27,457
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	–	(10)	–	(1,102)	–	–	3,398
Zhongxing Energy Company Limited	23.26%	60,000	–	(4,497)	–	(4,497)	–	–	55,503
思卓中興(杭州)科技有限公司	49%	3,380	–	(88)	–	(88)	–	–	3,292
		98,892	(1,844)	5,063	–	(4,921)	–	–	92,127

NOTES TO FINANCIAL STATEMENTS

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

XVI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

(3) Impairment for Long-term equity investment

	Opening and closing balance of the year
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
	113,065

NOTES TO FINANCIAL STATEMENTS

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

XVI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2007

(1) Subsidiaries

	Initial Amount	Opening balance of the year	Additions	Reductions	Closing balance of the year
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
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
南京中興軟創科技股份有限公司	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
Xi'an Zhong Xing Jing Cheng Communication Co., Ltd.	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
Shenzhen Zhongxing Liwei Technology Company, Limited	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

NOTES TO FINANCIAL STATEMENTS

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

XVI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2007 (continued)

(2) Associates

				Equity adjustment			Provision for impairment		
	Share of registered capital	Initial investment	Accumulated additional/ (reduced) investment cost	Changes in profit and loss during the year	Cash bonus during the year	Accumulated change in profit and loss	Additions for the year	Accumulated additions	Closing balance of the year
		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
Zhongxing Energy Company Limited	23.26%	60,000	—	—	—	—	—	—	60,000
		98,512	(4,844)	4,619	—	(9,984)	—	—	83,684

(3) Impairment for Long-term equity investment

	Opening and closing balance of the year
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
	113,065

NOTES TO FINANCIAL STATEMENTS

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

XVI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

6. Operating revenue and costs

	2008	2007
Revenue	**40,512,666**	31,870,913
Other income	**232,530**	928,342
	40,745,196	32,799,255

	2008	2007
Costs of sales	**33,447,784**	27,589,418
Other operating expenses	**7,413**	9,493
	33,455,197	27,598,911

In 2008, sales to the top five customers of the Company generated revenue of RMB 17,192,053,000 in 2008 (2007: RMB14,141,198,000), accounting for 42.20% (2007: 43.11%) of the operating revenue of the Company.

7. Investment income

	2008	2007
Investment Income on long-term investment under cost method	**1,178,495**	2,015,414
Investment Income on long-term investment under equity method	**1,867**	5,268
Investment Income from disposal of equity investment	**88,497**	29,507
	1,268,859	2,050,189

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

Appendix I – Supplementary Information to Financial Statements

(Prepared under PRC ASBEs)
31 December 2008

I. RECONCILIATION OF DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG FINANCIAL REPORTING STANDARDS

There were no significant differences between financial statements prepared under PRC ASBEs and under HKFRSs. Ernst & Young is the Company's Hong Kong auditor.

II. RETURN ON NET ASSETS AND EARNINGS PER SHARE

2008

	Return on net assets		**Earnings per share**	
	Fully diluted	**Weighted average**	**Basic**	**Diluted**
Net profit attributable to equity holders of the Company	**11.65%**	**12.36%**	**1.24**	**1.20**
Net profit after extraordinary items attributable to equity holders of the Company	**10.86%**	**11.52%**	**1.15**	**1.12**

2007

	Return on net assets		Earnings per share	
	Fully diluted	Weighted average	Basic	Diluted
Net profit attributable to equity holders of the Company	10.32%	10.94%	0.93	0.92
Net profit after extraordinary items attributable to equity holders of the Company	10.26%	10.88%	0.93	0.92

Net profit after extraordinary items attributable to equity holders of the parent

	2008	2007
Net profit attributable to equity holders of the Company	**1,660,199**	1,252,158
Add/(less): Non-operating income	**(213,045)**	(120,373)
Reversal of welfare expenses	**—**	(66,251)
Non-operating expenses	**81,146**	179,153
Effect of extraordinary items on income tax	**19,785**	1,121
Net profit after extraordinary items	**1,548,085**	1,245,808
Less: Effect of extraordinary items attributable to minority interests	**—**	—
Net profit after extraordinary items attributable to equity holders of the Company	**1,548,085**	1,245,808

Extraordinary items are recognized in accordance with"Explanatory announcement on information disclosures of public companies No.1–extraordinary gain and loss (2008)"(Announcement by China Securities Regulatory Commission [2008] No. 43).

Appendix I – Supplementary Information to Financial Statements

(Prepared under PRC ASBEs)
31 December 2008

III. ANALYSIS OF CHANGE IN THE FIGURES OF VARIOUS ITEMS IN THE FINANCIAL STATEMENT

Balance sheet items	Analysis of reasons
Cash and bank balances	Mainly as a result of improved operating cash flow
Tradable financial assets	Mainly as a result of the settlement of forward currency transactions
Trade receivables	Mainly as a result of growth in sales
Factored trade receivables	Mainly as a result of the increase in factoring with limiting conditions undertaken by the Company
Available-for-sale financial assets	Mainly as a result of investments in 航天科技投資控股有限公司
Factored long-term trade receivables	Mainly as a result of the decrease in factored long-term receivables with limiting conditions undertaken by the Company
Fixed assets	Mainly as a result of the increase in machinery equipment purchased in line with growth in business scale and the transfer of certain construction in progress to fixed assets
Intangible assets	Mainly as a result of the increase in the land use rights
Development expenditure	Mainly as a result of capitalisation of R&D expenses
Long-term deferred assets	Mainly as a result of amortisation of long-term deferred assets
Short-term loans	Mainly as a result of increased loans to meet working capital requirements
Bank advances on factored trade receivables	Mainly as a result of increase in factoring with limiting conditions undertaken by the Company
Tradable financial liabilities	Mainly as a result of the decrease in fair value of forward currency transactions
Bills payable	Mainly as a result of increased use of bills to settle payments
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
Taxes payable	Mainly as a result of the decrease in deductible Input VAT tax and the increase in enterprise income tax payable
Dividend payable	Mainly as a result of the decrease in unpaid dividend
Deferred income	Mainly as a result of the decrease in government subsidies deferred in recognition
Provision	Mainly as a result of changes in expected liabilities
Long-term loans	Mainly as a result of certain long-term loans falling due
Bank advances on factored receivables	Mainly as a result of the decrease in factored long-term receivables with limiting conditions undertaken by the Company
Deferred tax liabilities	Mainly as a result of the decrease in deferred income tax liabilities y arising from the capitalisation of R&D expenses
Share capital	Mainly as a result of the capitalisation from capital reserves
Retained profit	Mainly as a result of the increase of profit for the period
Proposed final dividend	Mainly as a result of the distribution of dividend for the period
Foreign currency translation differences	Mainly as a result of exchange rate fluctuations
Taxes and surcharges	Mainly as a result of the increase in corresponding business tax in line with increased service revenue
Finance expenses	Mainly as a result of the increase in interest expenses and the increase in exchange losses arising from exchange rate movements
Asset impairment losses	Mainly as a result of the decrease in bad debt provision
Gains/losses from change in fair values	Mainly as a result of the transfer of fair value gains/losses in forward exchange settlement trade matching to investment gains
Investment income	Mainly as a result of the increase in gains from the settlement of forward currency transactions
Non-operating expenses	Mainly as a result of the decrease in penalty expenses
Net profit attributable to equity holders of the parent	Mainly as a result of expanded sales

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安 永

To the shareholders of ZTE Corporation
(Established in the People's Republic of China with limited liability)

We have audited the financial statements of ZTE Corporation (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 212 to 295, which comprise the consolidated and company balance sheets as at 31 December 2008, 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.

INDEPENDENT AUDITORS' REPORT (continued)

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 2008 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 2009

CONSOLIDATED INCOME STATEMENT

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000 (Restated)
REVENUE	5	**44,293,427**	34,777,181
Cost of sales		**(29,911,471)**	(23,415,044)
Gross profit		**14,381,956**	11,362,137
Other income and gains	5	**1,295,715**	1,028,001
Research and development costs		**(3,994,145)**	(3,210,433)
Selling and distribution costs		**(5,400,967)**	(4,531,512)
Administrative expenses		**(2,190,037)**	(1,718,242)
Other expenses		**(1,159,682)**	(898,183)
Finance costs	7	**(690,174)**	(328,301)
Share of profits and losses of:			
Jointly-controlled entities		**—**	784
Associates		**19,877**	23,483
PROFIT BEFORE TAX	6	**2,262,543**	1,727,734
Tax	10	**(350,608)**	(276,283)
PROFIT FOR THE YEAR		**1,911,935**	1,451,451
Attributable to:			
Equity holders of the parent	11	**1,660,199**	1,252,158
Minority interests		**251,736**	199,293
		1,911,935	1,451,451
DIVIDEND			
Proposed final	12	**402,999**	239,880
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**RMB1.24**	RMB0.93
Diluted		**RMB1.20**	RMB0.92

CONSOLIDATED BALANCE SHEET

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2008

	Notes	**2008 RMB'000**	2007 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	15	**4,892,515**	3,954,809
Deposits for land lease payments		**–**	28,000
Prepaid land lease payments	16	**508,389**	58,357
Intangible assets	17	**592,974**	443,777
Investments in jointly-controlled entities	19	**2,255**	2,255
Investments in associates	20	**166,178**	134,764
Available-for-sale investments	21	**251,148**	43,464
Long-term trade receivables	24	**612,008**	581,007
Factored long-term trade receivables	25	**753,568**	3,142,709
Deferred tax assets	36	**400,265**	352,210
Total non-current assets		**8,179,300**	8,741,352
CURRENT ASSETS			
Prepaid land lease payments	16	**10,527**	1,543
Inventories	22	**8,978,036**	7,429,503
Amount due from customers for contract works	23	**7,894,010**	6,540,218
Trade and bills receivables	24	**11,550,968**	8,755,207
Factored trade receivables	25	**1,658,941**	153,668
Prepayments, deposits and other receivables	26	**2,476,642**	2,792,626
Loan receivable		**–**	13,466
Derivative financial instruments	27	**–**	123,644
Pledged bank deposits	28	**136,246**	173,421
Cash and cash equivalents	28	**11,344,160**	6,309,749
Total current assets		**44,049,530**	32,293,045
CURRENT LIABILITIES			
Trade and bills payables	29	**15,814,005**	11,802,669
Amount due to customers for contract works	23	**2,965,582**	1,597,314
Other payables and accruals	30	**4,661,469**	4,337,861
Interest-bearing bank borrowings	31	**5,664,485**	4,403,424
Bank advances on factored trade receivables	25	**1,658,941**	153,668
Tax payable		**559,953**	399,502
Derivative financial instruments	27	**12,560**	7,876
Dividends payable		**22,750**	41,180
Total current liabilities		**31,359,745**	22,743,494
NET CURRENT ASSETS		**12,689,785**	9,549,551
TOTAL ASSETS LESS CURRENT LIABILITIES		**20,869,085**	18,290,903

Continued/...

CONSOLIDATED BALANCE SHEET (continued)

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2008

	Notes	2008 RMB'000	2007 RMB'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		**20,869,085**	18,290,903
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	31	**1,292,547**	2,085,229
Bank advances on factored long-term trade receivables	25	**753,568**	3,142,709
Bonds cum warrants	32	**3,514,652**	—
Financial guarantee contract	41	**3,689**	3,689
Provision for retirement benefits	33	**36,063**	34,408
Other long-term payables	34	**80,000**	80,000
Deferred tax liabilities	36	**5,019**	56,460
Total non-current liabilities		**5,685,538**	5,402,495
Net assets		**15,183,547**	12,888,408
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	37	**1,343,330**	959,522
Reserves	39(a)	**12,503,215**	10,937,759
Proposed final dividend	12	**402,999**	239,880
		14,249,544	12,137,161
Minority interests		**934,003**	751,247
Total equity		**15,183,547**	12,888,408

Hou Weigui
Director

Yin Yimin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2008

		Attributable to equity holders of the parent									
	Notes	Issued 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	Minority interests RMB'000	Total equity RMB'000
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	38	–	–	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
At 1 January 2008		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
Exchange realignments and other income recognised directly in equity		–	4,763	–	–	(182,584)	–	–	(177,821)	1,084	(176,737)
Total income and expense for the year recognised directly in equity		–	4,763	–	–	(182,584)	–	–	(177,821)	1,084	(176,737)
Profit for the year		–	–	–	–	–	1,660,199	–	1,660,199	251,736	1,911,935
Total income and expense for the year		–	4,763	–	–	(182,584)	1,660,199	–	1,482,378	252,820	1,735,198
Final 2007 dividend declared		–	–	–	–	–	–	(239,880)	(239,880)	–	(239,880)
Disposal of subsidiary		–	(9,876)	–	–	–	–	–	(9,876)	(15,660)	(25,536)
Transfer from capital reserve		383,808	(383,808)	–	–	–	–	–	–	–	–
Transfer from retained profits		–	–	–	67,062	–	(67,062)	–	–	–	–
Dividends declared to minority shareholders		–	–	–	–	–	–	–	–	(50,080)	(50,080)
Acquisition of minority interests		–	–	–	–	–	–	–	–	(4,324)	(4,324)
Proposed final 2008 dividend	12	–	–	–	–	–	(402,999)	402,999	–	–	–
Issue of bonds cum warrants	32	–	580,210	–	–	–	–	–	580,210	–	580,210
Equity-settled share expense	38	–	–	299,551	–	–	–	–	299,551	–	299,551
At 31 December 2008		1,343,330	5,698,473*	599,699*	1,431,820*	(248,146)*	5,021,369*	402,999	14,249,544	934,003	15,183,547

* These reserve accounts comprise the consolidated reserves of approximately RMB12,503,215,000 (2007: RMB10,937,759,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**2,262,543**	1,727,734
Adjustments for:			
Finance costs	7	**690,174**	328,301
Share of profits and losses of jointly-controlled entities		**—**	(784)
Share of profits and losses of associates		**(19,877)**	(23,483)
Dividend income	5	**(3,257)**	(4,944)
Bank and other interest income	5	**(112,786)**	(47,536)
Government grants	5	**(131,037)**	(70,963)
Depreciation	6	**587,640**	511,982
Recognition of prepaid land lease payments	16	**1,448**	1,449
Write-down/(reversal) of inventories to net realisable value	6	**(53,596)**	75,098
Impairment of trade receivables	6	**472,954**	679,996
Amortisation of intangible assets	17	**114,985**	102,465
Loss on disposal of items of property, plant and equipment	6	**36,918**	20,405
Loss on disposal of intangible assets	6	**236**	3,522
Gain on settlement of financial derivative instruments	5	**(73,232)**	(17,708)
Gain on disposal of an equity investment at fair value through profit or loss	5	**—**	(877)
Gain on disposal of subsidiaries	5	**(26,300)**	—
Fair value (gain)/loss on derivative instruments transactions not qualifying as hedges	5,6	**128,328**	(115,566)
Equity-settled share expense	6	**299,551**	297,668
		4,174,692	3,466,759
Increase in long-term trade receivables		**(25,137)**	(208,304)
Increase in inventories		**(1,494,937)**	(2,957,373)
Increase in the amount due from customers for contract works		**(1,353,792)**	(2,772,811)
Increase in trade and bills receivables		**(3,274,579)**	(2,447,169)
(Increase)/decrease in prepayments, deposits and other receivables		**151,271**	(1,323,303)
Decrease in a loan receivable		**13,466**	8,560
Increase in trade and bills payables		**4,030,531**	4,811,004
Increase in the amount due to customers for contract works		**1,368,268**	601,039
Increase in other payables and accruals		**104,199**	1,020,013
Increase in factored trade receivables		**(1,505,273)**	(1,742,683)
(Increase)/decrease in factored long-term trade receivables		**2,389,141**	(820)
Increase/(decrease) in bank advances on factored trade receivables		**(883,868)**	1,743,503
Cash generated from operations		**3,693,982**	198,415

Continued/...

CONSOLIDATED CASH FLOW STATEMENT (continued)

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES (Continued)			
Cash generated from operations		**3,693,982**	198,415
Interest received		**112,786**	47,536
Interest and other finance costs paid		**(522,091)**	(328,301)
Hong Kong profits tax paid		**(5,535)**	(10,158)
PRC taxes paid		**(244,505)**	(121,983)
Overseas taxes paid		**(39,613)**	(127,380)
Dividends paid		**(239,880)**	(143,928)
Dividends paid to minority shareholders		**(68,510)**	(66,259)
Net cash inflow/(outflow) from operating activities		**2,686,634**	(552,058)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of prepaid land lease payments		**(372,474)**	(4,754)
Purchases of items of property, plant and equipment		**(1,229,579)**	(1,494,290)
Purchase of intangible assets		**(309,870)**	(278,179)
Proceeds from disposal of items of property, plant and equipment		**47,805**	18,295
Receipt of government grants		**93,623**	106,384
Acquisition of available-for-sale investments		**(205,164)**	—
Proceeds from disposal of an equity investment at fair value through profit or loss		**—**	39,109
Proceeds from settlement of derivative financial instruments		**73,232**	17,708
Proceeds from winding up of a jointly-controlled entity		**—**	4,465
Proceeds from disposal of prepaid land lease payments		**4,749**	—
Dividend received		**3,257**	—
Investments in associates		**(10,675)**	(60,000)
Acquisition of minority interests		**(4,324)**	—
Disposal of subsidiaries		**15,392**	—
(Increase)/decrease in pledged bank deposits		**37,175**	(4,424)
Net cash outflow from investing activities		**(1,856,853)**	(1,655,686)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions by minority shareholders		**—**	17,207
Proceeds from share incentive scheme		**43,342**	485,931
New bank loans		**9,365,004**	6,981,386
Proceeds from the issuance of bonds cum warrants		**3,961,444**	—
Repayment of bank loans		**(8,896,625)**	(3,117,701)
Net cash inflow from financing activities		**4,473,165**	4,366,823
NET INCREASE IN CASH AND CASH EQUIVALENTS		**5,302,946**	2,159,079
Cash and cash equivalents at beginning of year		**6,309,749**	4,142,063
Effect of foreign exchange rate changes, net		**(268,535)**	8,607
CASH AND CASH EQUIVALENTS AT END OF YEAR	28	**11,344,160**	6,309,749
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**11,336,404**	6,234,384
Non-pledged time deposits with original maturity of less than three months when acquired		**7,756**	75,365
		11,344,160	6,309,749

BALANCE SHEET

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2008

	Notes	2008 RMB'000	2007 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	15	**2,964,461**	2,648,279
Prepaid land lease payments	16	**460,116**	46,806
Intangible assets	17	**195,002**	205,754
Interests in subsidiaries	18	**2,309,651**	464,286
Investments in associates	20	**85,162**	81,782
Available-for-sale investments	21	**243,198**	41,464
Long-term trade receivables	24	**560,019**	401,715
Factored long-term trade receivables	25	**753,568**	3,142,709
Deferred tax assets	36	**231,182**	284,230
Total non-current assets		**7,802,359**	7,317,025
CURRENT ASSETS			
Prepaid land lease payments	16	**9,530**	1,300
Inventories	22	**5,211,017**	3,506,876
Amount due from customers for contract works	23	**8,038,449**	6,153,299
Trade and bills receivables	24	**14,700,000**	10,544,856
Factored trade receivables	25	**1,783,941**	278,668
Prepayments, deposits and other receivables	26	**2,882,690**	3,102,129
Derivative financial instruments	27	**—**	123,644
Pledged bank deposits	28	**7,522**	35,784
Cash and cash equivalents	28	**8,323,750**	4,604,365
Total current assets		**40,956,899**	28,350,921
CURRENT LIABILITIES			
Trade and bills payables	29	**19,484,293**	12,434,410
Derivative financial instruments	27	**12,560**	—
Amount due to customers for contract works	23	**2,408,455**	472,653
Other payables and accruals	30	**6,563,030**	4,797,088
Interest-bearing bank borrowings	31	**1,947,213**	4,045,242
Bank advances on factored trade receivables	25	**1,783,941**	278,668
Tax payable		**394,803**	282,693
Dividends payable		**10**	500
Total current liabilities		**32,594,305**	22,311,254
NET CURRENT ASSETS		**8,362,594**	6,039,667
TOTAL ASSETS LESS CURRENT LIABILITIES		**16,164,953**	13,356,692

Continued/...

BALANCE SHEET (continued)

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2008

	Notes	2008 RMB'000	2007 RMB'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		**16,164,953**	13,356,692
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	31	**1,005,039**	911,323
Bank advances on factored long-term trade receivables	25	**753,568**	3,142,709
Bonds cum warrants	32	**3,514,652**	—
Financial guarantee contract	41	**3,689**	3,689
Provision for retirement benefits	33	**36,063**	34,408
Other long-term payables	34	**80,000**	80,000
Deferred tax liabilities	36	**7,242**	27,822
Total non-current liabilities		**5,400,253**	4,199,951
Net assets		**10,764,700**	9,156,741
EQUITY			
Issued capital	37	**1,343,330**	959,522
Reserves	39(b)	**9,018,371**	7,957,339
Proposed final dividend	12	**402,999**	239,880
Total equity		**10,764,700**	9,156,741

Hou Weigui
Director

Yin Yimin
Director

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2008

1. CORPORATE INFORMATION

ZTE Corporation (the "Company") is a limited liability company established 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 (collectively referred to as 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 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 for the year ended 31 December 2008. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisition of minority interests is 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 Financial Reporting Standards)
31 December 2008

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to 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, the adoption of these new interpretations and amendments has had no significant effect on these financial statements.

HKAS 39 & HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures — Reclassification of Financial Assets*
HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC) — Int 12	Service Concession Arrangements
HK(IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures — Reclassification of Financial Assets*

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2008

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

(b) HK(IFRIC) — Int 11 HKFRS 2 — *Group and Treasury Share Transactions*

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 buys 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. The adoption of this interpretation had no material impact on the financial position or results of operations of the Group.

(c) HK(IFRIC) — Int 12 *Service Concession Arrangements*

HK(IFRIC) — Int 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. As the Group currently has no such arrangements, the interpretation has had no impact on the financial position or results of operation on the Group.

(d) HK(IFRIC) — Int 14 HKAS 19 — *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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, including situations when a minimum funding requirement exists. The adoption of this interpretation had no material impact on the financial position or results of operations of the Group.

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 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[1]
HKFRS 1 (Revised)	First-time Adoption of HKFRS[2]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Vesting Conditions and Cancellations*[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation*[1]

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2008

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

HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*[2]
HK(IFRIC) — Int 13	Customer Loyalty Programmes[3]
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate[1]
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation[4]
HK(IFRIC) — Int 17	Distribution of Non-cash Assets to Owners[2]
HK(IFRIC) — Int 18	Transfers of Assets from Customers[5]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
5 Effective for transfers of assets from customers received on or after 1 July 2009
* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. The amendment is applied prospectively only. The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investments in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The Group expects to adopt the HKAS 27 Amendment from 1 January 2009. The amendments have no impact on the consolidated financial statements. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

HKFRS 1 (Revised) was issued in December 2008 and shall be applied for financial years beginning on or after 1 July 2009. The purpose of the revision is to improve the structure of the standard, and there are no changes to the substance of accounting by first-time adopters. The adoption of the revised standard will have no impact on the financial position or performance of the Group.

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the amendments are unlikely to have any significant implications on its accounting for share-based payments.

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2008

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

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures.*

The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect future acquisitions, loss of control and transactions with minority interests.

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 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group expects to adopt HKAS 1 (Revised) 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.

The HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments are unlikely to have any financial impact on the Group.

The amendment to HKAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. As the Group has not entered into any such hedges, the amendment is unlikely to have any financial impact on the Group.

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong Financial Reporting Standards)
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2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HK(IFRIC) — Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. 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 customer loyalty award scheme, the interpretation is not applicable to the Group and therefore is unlikely to have any financial impact on the Group.

HK(IFRIC) — Int 15 will replace HK Interpretation 3 *Revenue — Pre-completion Contracts for the Sale of Development Properties*. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with HKAS 18 *Revenue*. As the Group currently is not involved in any construction of real estate, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC) — Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC) — Int 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to HKAS 10 *Events after the Balance Sheet Date* and HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

HK(IFRIC) — Int 18 clarifies the requirements of HKFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. As the Group has no such assets transferred from customers, the interpretation is unlikely to have any material financial impact on the Group.

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

In October 2008, the HKICPA issued its first *Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2009. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group are as follows:

(a) HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest.

(b) HKFRS 7 *Financial Instruments: Disclosures*: Removes the reference to “total interest income” as a component of finance costs.

(c) HKAS 1 *Presentation of Financial Statements*: Clarifies that assets and liabilities which are classified as held for trading in accordance with HKAS 39 are not automatically classified as current in the balance sheet.

(d) HKAS 16 *Property, Plant and Equipment*: Replaces the term “net selling price” with “fair value less costs to sell” and the recoverable amount of property, plant and equipment is calculated as the higher of an asset’s fair value less costs to sell and its value in use.

In addition, items held for rental that are routinely sold in the ordinary course of business after rental are transferred to inventory when rental ceases and they are held for sale.

(e) HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*: Requires government loans granted in the future with no or at a below-market rate of interest to be recognised and measured in accordance with HKAS 39 and the benefit of the reduced interest to be accounted for as a government grant.

(f) HKAS 27 *Consolidated and Separate Financial Statements*: Requires that when a parent entity accounts for a subsidiary at fair value in accordance with HKAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

(g) HKAS 28 *Investments in Associates*: Clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.

(h) HKAS 36 *Impairment of Assets*: When discounted cash flows are used to estimate “fair value less cost to sell”, additional disclosure is required about the discount rate, consistent with the disclosures required when the discounted cash flows are used to estimate “value in use”.

NOTES TO FINANCIAL STATEMENTS

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

(i) HKAS 38 *Intangible Assets*: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.

The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed.

(j) HKAS 40 *Investment Property*: Revises the scope such that property being constructed or developed for future as an investment property is classified as an investment property.

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 interests 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

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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 investments in the jointly-controlled entities, except where unrealised losses provide evidence of impairment of the asset transferred.

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 investments 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.

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 and financial assets), 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets other than goodwill (continued)

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 an 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 an 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.

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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 least 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.

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

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.

Computer software

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

Operating concession

Operating concession represents the right to operate a telecommunications 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 lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial asset 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 derivative 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.

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.

NOTES TO FINANCIAL STATEMENTS

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

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, markets 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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and bills and other payables, an amount due to the ultimate holding company 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 are 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.

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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 of the best estimate of the expenditure required to settle the present obligation at the balance sheet date, and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Bonds cum warrants

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of bonds cum warrants, the fair value of the liability component is determined using a market rate for an equivalent bond without the detached share purchase warrants; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the detachable share purchase warrants that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the detachable share purchase warrants is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the bonds cum warrants based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour, an appropriate proportion of overheads and/or subcontracting 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.

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 works.

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 works.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

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

Income tax

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

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

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and investments 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 investments 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

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 those employees who are eligible to participate in the schemes. 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 benefit 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 benefit 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 benefit 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.

Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for the plan at the end of the previous period exceeded 10% of the defined benefit obligation at that date. These gains or losses are recognised over the expected average remaining service periods of the employees participating in the plan.

Past service costs are recognised as an expense on the straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, the pension plan, past service costs are recognised immediately.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Defined benefit pension scheme (continued)

The defined benefit liability comprises the present value of the defined benefit obligation less past service costs not yet recognised. The value of any asset is restricted to the sum of any past service costs not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

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 38. 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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 dates 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 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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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) income 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) income from the telecommunications system contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above;

(c) income 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: (i) whether the delivered item has value to the customer on a stand alone basis, (ii) whether there is objective and reliable evidence of the fair value of the undelivered item(s), and (iii) whether the contract that 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

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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 regions 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
- whether the contract that 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.

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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 stand alone 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 the time 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 term of 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 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 the 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 the 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 contracts. Management uses historical experience, project plans and an assessment of the risks and uncertainties inherent in the arrangements to establish these judgements. 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

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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*, where 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 the title in certain jurisdictions have been transferred to the customer. For arrangements where the criteria for revenue recognition have not been met because the legal title or risk of loss on products has not been transferred to the buyer until final payment had been received or where delivery had not occurred, revenue is deferred to a later period when the title or 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 the Group's 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 as at 31 December 2008 was approximately RMB4,892,515,000 (2007: RMB3,954,809,000). The carrying amount of intangible assets as at 31 December 2008 was RMB592,974,000 (2007: RMB443,777,000). 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 or 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 net discounted cash flows of the item of intangible assets or 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

The carrying amount of trade receivables as at 31 December 2008 was approximately RMB12,162,976,000 (2007: RMB9,336,214,000).

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 statement 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

The Group's carrying amount of property, plant and equipment as at 31 December 2008 was approximately RMB4,892,515,000 (2007: RMB3,954,809,000). 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

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2008 was RMB84,957,000 (2007: RMB71,155,000). The amount of unrecognised tax losses at 31 December 2008 was RMB 362,606,000 (2007: RMB389,043,000). Further details are contained in note 36 to the financial statements.

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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.

During the year, the Group changed its segment reporting in accordance with the objectives set forth in HKAS 14 Segment reporting considering the similarities of the risks and returns for different products and services, meanwhile, align with the industrial disclosure conventions. The business segments previously reported in Wireless communications segment, Wireline switch and access segment and Optical and data communications segment have been merged into one new segment — Networks. The other two segments — Handsets and Telecommunications software systems and services and other products remain the same as previous. The comparative amounts in prior year have been restated as a result of such changes.

Summary details of the business segments are as follows:

(a) The networks segment includes the wireless communications, the wireline switch and access and the optical and data communications.

(b) The handsets segment engages in the manufacture and sale of CDMA, WCDMA, TD-SCDMA and GSM mobile phone handsets and wireless local access (PHS) handsets.

(c) 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.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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4. 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 2008 and 2007.

Group

	Networks		Handsets		Telecommunications software systems services and other products		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment revenue:								
Telecommunications system contracts	**28,963,799**	22,567,491	**—**	—	**3,127,846**	2,134,214	**32,091,645**	24,701,705
Sale of goods and services	**—**	—	**9,692,563**	7,645,126	**2,509,219**	2,430,350	**12,201,782**	10,075,476
Total	**28,963,799**	22,567,491	**9,692,563**	7,645,126	**5,637,065**	4,564,564	**44,293,427**	34,777,181
Segment results	**6,888,262**	6,002,054	**1,087,853**	663,065	**1,004,874**	165,506	**8,980,989**	6,830,625
Interest and unallocated gains							**1,295,715**	1,028,001
Unallocated expenses							**(7,343,864)**	(5,826,858)
Finance costs							**(690,174)**	(328,301)
Share of profits and losses of:								
Jointly-controlled entities							**—**	784
Associates							**19,877**	23,483
Profit before tax							**2,262,543**	1,727,734
Tax							**(350,608)**	(276,283)
Profit for the year							**1,911,935**	1,451,451
Assets and liabilities								
Segment assets	**22,811,960**	16,993,121	**5,011,544**	3,976,918	**4,432,469**	4,141,340	**32,255,973**	25,111,379
Investments in jointly-controlled entities							**2,255**	2,255
Investments in associates							**166,178**	134,764
Unallocated assets							**19,804,424**	15,785,999
Total assets							**52,228,830**	41,034,397
Segment liabilities	**3,399,777**	2,319,950	**149,854**	183,649	**808,813**	584,934	**4,358,444**	3,088,533
Unallocated liabilities							**32,686,839**	25,057,456
Total liabilities							**37,045,283**	28,145,989
Other segment information:								
Depreciation and amortisation	**491,251**	402,433	**114,127**	89,385	**97,247**	122,629	**702,625**	614,447
Capital expenditure	**1,353,308**	1,184,153	**314,210**	263,014	**267,601**	358,056	**1,935,119**	1,805,223

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4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and asset information for the Group's geographical segments for the years ended 31 December 2008 and 2007.

Group

	The PRC		Asia (excluding the PRC)		Africa		Others		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	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	**15,741,405**	12,460,366	**7,802,163**	6,677,595	**6,723,938**	3,431,340	**1,824,139**	2,132,404	**32,091,645**	24,701,705
Sale of goods and services	**1,725,024**	2,226,230	**2,630,770**	3,001,776	**2,587,185**	2,053,491	**5,258,803**	2,793,979	**12,201,782**	10,075,476
	17,466,429	14,686,596	**10,432,933**	9,679,371	**9,311,123**	5,484,831	**7,082,942**	4,926,383	**44,293,427**	34,777,181
Other segment information:										
Segment assets	**30,857,334**	28,752,355	**8,347,805**	9,653,953	**7,697,638**	1,271,222	**5,326,053**	1,356,867	**52,228,830**	41,034,397

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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:

	2008 RMB'000	2007 RMB'000
Revenue		
Telecommunications system contracts	**32,091,645**	24,701,705
Sale of goods and services	**12,201,782**	10,075,476
	44,293,427	34,777,181
Other income		
Government grants	**131,037**	70,963
VAT refunds and other tax subsidies#	**949,103**	770,407
Dividend income	**3,257**	4,944
Bank and other interest income	**112,786**	47,536
	1,196,183	893,850
Gains		
Gain on settlement of derivative financial instruments	**73,232**	17,708
Gain on disposal of an equity investment at fair value through profit or loss	**—**	877
Gain on disposal of subsidiaries	**26,300**	—
Fair value gain on derivative financial instruments transactions not qualified as hedges	**—**	115,566
	99,532	134,151
	1,295,715	1,028,001

During the years ended 31 December 2008 and 2007, Zhongxing Software Company Limited ("Zhongxing Software") and ZTEsoft Technology Co. Ltd ("ZTEsoft") being designated software enterprises, 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 by 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 ZTEsoft.

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6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2008 RMB'000	2007 RMB'000
Cost of goods and services		**25,305,556**	21,662,725
Depreciation	15	**587,640**	511,982
Amortisation of intangible assets other than deferred development costs	17	**53,584**	50,224
Research and development costs:			
Deferred development costs amortised**	17	**61,401**	52,241
Current year expenditure		**3,994,145**	3,210,433
Less: Government grants released		**(131,037)**	(70,963)
		3,924,509	3,191,711
Fair value loss on derivative financial transactions not qualifying as hedges		**128,328**	—
Impairment of trade receivables*	24	**472,954**	679,996
Provision for warranties**	35	**135,045**	61,793
Write-down/(reversal) of inventories to net realisable value**		**(53,596)**	75,098
Minimum lease payments under operating leases on land and buildings		**325,356**	388,131
Contingent rent receivable in respect of an operating lease		**(27,569)**	(24,075)
Auditors' remuneration		**6,933**	6,410
Staff costs (including directors' and supervisors' remuneration note 8):			
Wages, salaries, bonuses, allowances and welfare		**5,521,487**	4,671,714
Equity-settled share expense		**299,551**	297,668
Retirement benefit scheme contributions:			
Defined benefit pension scheme	33	**2,356**	3,087
Defined contribution pension scheme		**380,136**	217,942
		6,203,530	5,190,411
Foreign exchange differences, net*		**495,710**	62,567
Loss on disposal of items of property, plant and equipment*		**36,918**	20,405
Loss on retirements and disposals of intangible assets*	17	**236**	3,522

* The impairment of trade receivables, foreign exchange differences, 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 warranties, amortisation of deferred development costs and write-down/(reversal) of inventories to net realisable value are included in "Cost of sales" on the face of the consolidated income statement.

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7. FINANCE COSTS

	Group	
	2008	2007
	RMB'000	RMB'000
Interest on bank loans wholly repayable within five years	**308,578**	213,925
Finance costs on trade receivables factored and bills discounted	**248,178**	114,376
Interest on bonds cum warrants	**133,418**	—
	690,174	328,301

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	
	2008	2007
	RMB'000	RMB'000
Fees	**—**	—
Other emoluments of directors and supervisors:		
Salaries, bonuses, allowances and welfare	**3,295**	3,192
Performance related bonuses	**4,976**	4,924
Share incentive scheme	**—**	1,800
Retirement benefit scheme contributions	**129**	96
	8,400	10,012

(a) Independent non-executive directors

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

	2008	2007
	RMB'000	RMB'000
Zhu Wuxiang	**100**	90
Chen Shaohua	**100**	90
Mi Zhengkun	**100**	90
Li Jin	**100**	90
Qiao Wenjun	**100**	90
	500	450

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

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(Prepared under Hong Kong Financial Reporting 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 benefit scheme contributions RMB'000	Total remuneration RMB'000
2008						
Executive directors:						
Yin Yimin	—	442	1,961	—	24	2,427
Shi Lirong	—	379	450	—	22	851
He Shiyou	—	401	720	—	37	1,158
	—	1,222	3,131	—	83	4,436
Non-executive directors:						
Hou Weigui	—	327	622	—	—	949
Wang Zongyin	—	100	—	—	—	100
Xie Weiliang	—	100	—	—	—	100
Zhang Junchao	—	100	—	—	—	100
Li Juping	—	100	—	—	—	100
Dong Lianbo	—	100	—	—	—	100
	—	2,049	3,753	—	83	5,885
Supervisors:						
Zhang Taifeng	—	327	622	—	—	949
Wang Wangxi	—	242	312	—	23	577
He Xuemei	—	177	289	—	23	489
Qu Deqian	—	—	—	—	—	—
Wang Yan	—	—	—	—	—	—
	—	746	1,223	—	46	2,015

	Fees RMB'000	Salaries, bonuses, allowances and welfare RMB'000	Performance related bonuses RMB'000	Share incentive scheme RMB'000	Retirement benefit scheme contributions RMB'000	Total remuneration RMB'000
2007						
Executive directors:						
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
Non-executive directors:						
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
Supervisors:						
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

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8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

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

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included no (2007: Nil) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the five (2007: five) non-director and non-supervisor, highest paid employees for the year are as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Salaries, bonuses, allowances and welfare	**8,457**	7,034
Performance related bonuses	**2,537**	4,327
Retirement benefit scheme contributions	**1,498**	2,082
	12,492	13,443

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

	Number of employees	
	2008	2007
RMB1,500,001 to RMB2,000,000	**2**	—
RMB2,000,001 to RMB2,500,000	**1**	1
RMB2,500,001 to RMB3,000,000	**1**	3
RMB3,000,001 to RMB3,500,000	**1**	1
	5	5

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

10. TAX

	2008	2007
	RMB'000	RMB'000
Group:		
Current — Hong Kong	**698**	3,205
Current — Mainland China	**317,723**	135,778
Current — Overseas	**131,683**	222,127
Deferred (note 36)	**(99,496)**	(84,827)
Total tax charge for the year	**350,608**	276,283

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10. TAX (continued)

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. The lower Hong Kong profits tax rate has become effective from the year of assessment 2008/2009, and so was applicable to the assessable profits arising in Hong Kong for the whole year ended 31 December 2008. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Under the new enterprise income tax law of the PRC effective from 1 January 2008, the tax rate applicable to domestic-invested enterprises and foreign-invested enterprises has been standardised at 25%.

The Company and its subsidiaries established and operating in the PRC Shenzhen Special Economic Zone (SEZ) are subject to the State Council Circular on the Implementation of the Transitional Concession Policies for Corporate Income Tax (Guo Fa [2007] No. 39), which provides that enterprises previously entitled to concession policies of tax rate reductions shall have a grace period of five years to comply with the requirement of the new statutory tax rate, commencing on 1 January 2008 after the implementation of the new tax law. Enterprises entitled to a 15% corporate income tax rate will be subject to tax rates of 18%, 20%, 22%, 24% and 25% in 2008, 2009, 2010, 2011 and 2012 respectively. The Group is subject to the transitional tax rate of 18% for the current year in the calculation of taxation. Enterprises certificated as high-tech enterprises are subject to an enterprise income tax rate of 15% for three years (including 2008) under a preferential tax policy.

As a hi-tech enterprise in Shenzhen, the Company has obtained the certification as a national-grade hi-tech enterprise, with which the company enjoys an enterprise income tax rate of 15% from 2008 to 2010.

As a designated software enterprise, Zhongxing Software is an important software enterprise under the National Planning Layout and is subject to the currently applicable enterprise income tax rate of 10%.

ZTE Technology & Service Company Limited ("ZTE Technology & Service") enjoyed the tax holiday with an exemption from enterprise income tax in the first profitable year and a 50% reduction of enterprise income tax in the second and third years. ZTE Technology & Service is an enterprise providing advanced technology services in Shenzhen. The applicable enterprise income tax rate is 18%. The current year was its second profitable year and the company was subject to a reduced enterprise income tax of 9%. The company has obtained the certification of a national-grade hi-tech enterprise.

ZTE Mobile Tech Co., Ltd. ("ZTE Mobile"), as a SEZ enterprise engages in the servicing industry, was entitled to an enterprise income tax exemption in the first profitable year and a 50% reduction of enterprise income tax in the second and third years. The applicable enterprise income tax rate of ZTE Mobile is 18%. The current year was its second profitable year and the company was subject to a reduced enterprise income tax of 9%. The company has obtained the certification of a national-grade hi-tech enterprise.

ZTE Microelectronics Technology Co., Ltd. ("ZTE Microelectronics"), as a manufacturing enterprise, was entitled to enterprise income tax exemption in the first and second profitable years and was entitled to a 50% reduction in enterprise income tax from the third to the fifth year. As a hi-tech enterprise of Shenzhen, ZTE Microelectronics has obtained the certification of a national-grade hi-tech enterprise. However, the current year is the fifth profitable year and the applicable enterprise income tax rate is 18%. Thus, the company was subject to a reduced enterprise income tax of 9%.

As a hi-tech enterprise of Shenzhen, Shenzhen Lead Communication Equipment Company Limited has obtained the certification of a national-grade hi-tech enterprise, to which an enterprise income tax rate of 15% shall apply from 2008 to 2010.

NOTES TO FINANCIAL STATEMENTS

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10. TAX (continued)

Xi'an Zhong Xing Software Co., Ltd. was entitled to enterprise income tax exemption in the first and second profitable years and was entitled to a 50% reduction in enterprise income tax from the third to the fifth year. The current year is the second profitable year and enjoyed enterprise income tax exemption. The company has obtained the certification of a national-grade hi-tech enterprise.

Xi'an Zhong Xing Jing Cheng Communication Co., Ltd. has obtained the certification of a national-grade hi-tech enterprise, to which an enterprise income tax rate of 15% shall apply from 2008 to 2010.

As a hi-tech enterprise of Nanjing, ZTEsoft has obtained the certification of a national-grade hi-tech enterprise, to which an enterprise income tax rate of 15% shall apply from 2008 to 2010.

Nanjing Zhong Xing Software Co., Ltd. was entitled to enterprise income tax exemption in the first and second profitable years and was entitled to a 50% reduction in enterprise income tax from the third to the fifth year. The current year is the third profitable year and the company was subject to a reduced enterprise income tax of 12.5%. The company has obtained the certification of a national-grade hi-tech enterprise.

Shanghai Zhong Xing Software Co., Ltd. was entitled to enterprise income tax exemption in the first and second profitable years and was entitled to a 50% reduction in enterprise income tax from the third to the fifth year. The current year is the second profitable year and enjoyed enterprise income tax exemption. The company has obtained the certification of a national-grade hi-tech enterprise.

As a hi-tech enterprise of Shanghai, Shanghai Zhongxing Telecom Equipment Technology & Service Company, Limited has obtained the certification of a national-grade hi-tech enterprise, to which an enterprise income tax rate of 15% shall apply from 2008 to 2010.

As a hi-tech enterprise of Wuxi, Wuxi Zhongxing Optoelectronics Technologies Company Limited has obtained the certification of a national-grade hi-tech enterprise, to which an enterprise income tax rate of 15% shall apply from 2008 to 2010.

	2008		2007	
	RMB'000	**%**	RMB'000	%
Profit before tax	**2,262,543**		1,727,734	
Tax at statutory tax rate	**565,636**	**25.0**	570,152	33.0
Lower tax rate for specific provinces or enacted by local authority	**(226,254)**	**(10.0)**	(310,992)	(18.0)
Expenses not deductible for tax	**195,330**	**8.7**	172,398	10.0
Income not subject to tax	**(33,219)**	**(1.5)**	(129,417)	(7.5)
Tax holiday	**(72,457)**	**(3.2)**	(91,503)	(5.3)
Profits and losses attributable to jointly-controlled entities and associates	**201**	**–**	(1,869)	(0.1)
Tax losses utilised from previous years	**(135,957)**	**(6.0)**	(1,680)	(0.1)
Tax losses of subsidiaries	**57,328**	**2.5**	69,194	4.0
Tax charge at the Group's effective rate	**350,608**	**15.5**	276,283	16.0

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 (2007: Nil).

The share of tax attributable to associates amounting to RMB637,000 (2007: Nil), are included in "Share of profits and losses of associates" on the face of the consolidated income statement.

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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 2008 includes a profit of approximately RMB975,994,000 (2007: RMB20,714,000) which has been dealt with in the financial statements of the Company (note 39(b)).

12. DIVIDEND

	2008 RMB'000	2007 RMB'000
Proposed final — RMB0.3 (2007: RMB0.25) per ordinary share	402,999	239,880

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

13. EARNINGS PER SHARE

Basic earnings per share amount is computed by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue as adjusted by the bonus issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

Calculations of basic and diluted earnings per shares were as follows:

	2008 RMB'000	2007 RMB'000
Earnings		
Profit for the year attributable to ordinary equity holders of the parent	1,660,199	1,252,158

	Number of Shares	
	2008	2007 (Restated)
Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation	1,343,330	1,343,330#
Shares subject to lock-up under the share incentive scheme	36,945	13,434#
Warrants attached to bonds*	—	—
Adjusted weighted average number of ordinary shares in issue	1,380,275	1,356,764#

* The average market price of the ordinary shares during the year is less than the exercise price of the warrants, therefore, they are not considered in the calculation of diluted earnings per share for the year ended 31 December 2008.

The number of ordinary shares in issue during 2007 had been restated to take into account the bonus issue of share during the year ended 31 December 2008 (note 37).

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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 their respective statutory surplus reserves (the "SSR") until such reserves reach 50% of the registered capital 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 capital of these companies.

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 boards of directors.

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
31 December 2008						
At 31 December 2007 and at 1 January 2008:						
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
At 1 January 2008, net of accumulated depreciation and impairment	949,996	35,680	1,869,099	168,944	931,090	3,954,809
Additions	3,139	50,365	663,073	52,957	915,593	1,685,127
Disposals	(1,795)	—	(68,652)	(14,276)	—	(84,723)
Depreciation provided during the year	(61,690)	(24,751)	(477,437)	(23,762)	—	(587,640)
Transfers	734,921	11,100	283,576	—	(1,029,597)	—
Exchange realignments	(2,998)	—	(66,976)	(5,084)	—	(75,058)
At 31 December 2008, net of accumulated depreciation and impairment	1,621,573	72,394	2,202,683	178,779	817,086	4,892,515
At 31 December 2008:						
Cost	1,865,349	148,833	4,165,233	281,730	817,086	7,278,231
Accumulated depreciation and impairment	(243,776)	(76,439)	(1,962,550)	(102,951)	—	(2,385,716)
Net carrying amount	1,621,573	72,394	2,202,683	178,779	817,086	4,892,515

NOTES TO FINANCIAL STATEMENTS

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15. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery, computer and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2007						
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

NOTES TO FINANCIAL STATEMENTS

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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
31 December 2008						
At 31 December 2007 and at 1 January 2008:						
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
At 1 January 2008, net of accumulated depreciation and impairment	888,579	10,721	814,651	116,541	817,787	2,648,279
Additions	—	—	451,967	31,293	327,602	810,862
Disposals	—	—	(16,566)	(6,271)	—	(22,837)
Transfers from subsidiaries	—	—	12,997	274	—	13,271
Transfers to subsidiaries	—	—	(172,344)	(2,187)	—	(174,531)
Depreciation provided during the year	(59,821)	(4,676)	(228,349)	(17,738)	—	(310,584)
Transfers	732,000	11,100	—	—	(743,100)	—
Exchange realignments	13	—	(8)	(4)	—	1
At 31 December 2008, net of accumulated depreciation and impairment	1,560,771	17,145	862,348	121,908	402,289	2,964,461
At 31 December 2008:						
Cost	1,784,775	59,372	1,805,621	195,150	402,289	4,247,207
Accumulated depreciation and impairment	(224,004)	(42,227)	(943,273)	(73,242)	—	(1,282,746)
Net carrying amount	1,560,771	17,145	862,348	121,908	402,289	2,964,461

NOTES TO FINANCIAL STATEMENTS

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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
31 December 2007						
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

As at 31 December 2008, houses and buildings with a book value of RMB92,766,000 (2007: RMB96,478,000) was pledged as security for the preservation of properties subject to legal proceedings. Details are disclosed in Note 40(b). A subsidiary of the Group pledged real estate properties with a book value of RMB10,269,000 (2007: RMB8,906,000) and machinery equipment with a book value of RMB117,474,000 (2007: RMB121,044,000), respectively, as security for long-term loans.

As at 31 December 2008, the Group was in the process of obtaining the real estate title certificates for building located in Nanjing, Shenzhen and Shanghai, the PRC, with net carrying values of approximately RMB114,595,000 (2007: RMB86,300,000), RMB764,269,000 (2007: RMB238,060,000) and RMB242,743,000 (2007: Nil).

NOTES TO FINANCIAL STATEMENTS

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16. PREPAID LAND LEASE PAYMENTS

Group

	2008 **RMB'000**	2007 RMB'000
Carrying amount at 1 January	**59,900**	56,595
Additions during the year	**465,213**	4,754
Disposals	**(4,749)**	—
Recognised during the year	**(1,448)**	(1,449)
Carrying amount at 31 December	**518,916**	59,900
Current portion	**(10,527)**	(1,543)
Non-current portion	**508,389**	58,357

Various pieces of leasehold land are held under medium term leases and are situated in Mainland China.

Company

	2008 **RMB'000**	2007 RMB'000
Carrying amount at 1 January	**48,106**	49,406
Additions during the year	**422,840**	—
Recognised during the year	**(1,300)**	(1,300)
Carrying amount at 31 December	**469,646**	48,106
Current portion	**(9,530)**	(1,300)
Non-current portion	**460,116**	46,806

Various pieces of leasehold land are held under medium term leases and are situated in Mainland China.

As at 31 December 2008, the Group was in the process of obtaining the land use right certificate of a piece of land located in Shenzhen, the PRC, with a net carrying value of approximately RMB259,572,000 (2007: Nil).

NOTES TO FINANCIAL STATEMENTS

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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
31 December 2008:					
Cost at 1 January 2008, net of accumulated amortisation and impairment	**730**	**139,342**	**44,715**	**258,990**	**443,777**
Additions	**3,678**	**27,761**	**—**	**278,431**	**309,870**
Retirements and disposals	**—**	**(42,815)**	**—**	**—**	**(42,815)**
Amortisation provided during the year	**(830)**	**(49,294)**	**(3,460)**	**(61,401)**	**(114,985)**
Exchange realignments	**—**	**—**	**(2,873)**	**—**	**(2,873)**
At 31 December 2008	**3,578**	**74,994**	**38,382**	**476,020**	**592,974**
At 31 December 2008:					
Cost	**5,033**	**337,632**	**94,530**	**699,531**	**1,136,726**
Accumulated amortisation and impairment	**(1,455)**	**(262,638)**	**(56,148)**	**(223,511)**	**(543,752)**
Net carrying amount	**3,578**	**74,994**	**38,382**	**476,020**	**592,974**
31 December 2007:					
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

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17. INTANGIBLE ASSETS (continued)

Company

	Computer software RMB'000	Deferred development costs RMB'000	Total RMB'000
31 December 2008:			
Cost at 1 January 2008, net of accumulated amortisation and impairment	**78,131**	**127,623**	**205,754**
Additions	**20,133**	**49,186**	**69,319**
Retirements and disposals	**(344)**	**—**	**(344)**
Amortisation provided during the year	**(40,832)**	**(38,895)**	**(79,727)**
At 31 December 2008	**57,088**	**137,914**	**195,002**
At 31 December 2008:			
Cost	**303,096**	**333,443**	**636,539**
Accumulated amortisation and impairment	**(246,008)**	**(195,529)**	**(441,537)**
Net carrying amount	**57,088**	**137,914**	**195,002**
31 December 2007:			
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

18. INTERESTS IN SUBSIDIARIES

	Company	
	2008 RMB'000	2007 RMB'000
Unlisted shares, at cost	**1,768,698**	577,351
Less: Impairment#	**(113,065)**	(113,065)
Loans to subsidiaries	**654,018**	—
	2,309,651	464,286

An impairment was recognised for certain unlisted investments in subsidiaries, with a carrying amount of RMB470,888,000 (before deducting the impairment loss) (2007: RMB268,877,000) because the respective subsidiaries are loss making. There was no change in the impairment account during the current and prior years.

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

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18. INTERESTS IN SUBSIDIARIES (continued)

The amounts advances to the subsidiaries included in the interests in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, these advances are considered as quasi-equity loans to the subsidiaries.

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
ZTEsoft Technology Co. Ltd ("ZTEsoft")[#(ii)] (南京中興軟創科技股份有限公司)	The PRC/Mainland China	RMB200,000,000	76	–	Sale and development of business operation support system
Zhongxing Software Company Limited ("Zhongxing Software")[#(ii)] (深圳市中興軟件有限責任公司)	The PRC/Mainland China	RMB50,000,000	73	25	Development of telecommunications software systems and provision of related consultancy services
Xi'an Zhongxing New Software Company Limited[#(i)] (西安中興新軟件有限責任公司)	The PRC/Mainland China	RMB600,000,000	100	–	Development of telecommunications software systems and provision of related consultancy services
Wuxi Zhongxing Optoelectronics Technologies Company Limited ("Wuxi Zhongxing")[#(i)] (無錫市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 Co., Ltd.[#(i)] (深圳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	HKD500,000,000	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	RMB31,100,160	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	INR1,246,374,597	100	–	Marketing and sale of telecommunications systems equipment and provision of management services
ZTE Technology & Service Co., Limited ("ZTE Technology & Service")[#(i)] (深圳市中興通訊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 system equipment

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18. INTERESTS 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 name of this subsidiary is directly translated from its registered name.

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	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Share of net assets	**2,255**	2,255	**—**	—
	2,255	2,255	**—**	—

The Group's balances of trade and bills receivables with a jointly-controlled entity are disclosed in note 24 to the financial statements. The amounts due from the jointly-controlled entities are unsecured, interest-free and are repayable on demand.

Particulars of the jointly-controlled entity is as follow:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Bestel Communications Limited ("Bestel")	Republic of Cyprus	CYP600,000	50	50	50	Provision of telecommunications solutions and related consultancy services

The investment in Bestel is held by a wholly-owned subsidiary of the Company. There was no operating activity occurring in 2008.

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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 entity:

	2008 **RMB'000**	2007 RMB'000
Share of the jointly-controlled entities' assets and liabilities		
Current assets	**2,303**	2,303
Current liabilities	**(48)**	(48)
Net assets	**2,255**	2,255
Share of the jointly-controlled entity' results		
Revenue	**—**	894
Other income	**—**	384
Total revenue	**—**	1,278
Total expenses	**—**	(487)
Tax	**—**	(7)
Profit after tax	**—**	784

20. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2008 **RMB'000**	2007 RMB'000	**2008** **RMB'000**	2007 RMB'000
Unlisted shares, at cost	**—**	—	**94,936**	91,556
Share of net assets	**166,178**	134,764	**—**	—
	166,178	134,764	**94,936**	91,556
Provision for impairment	**—**	—	**(9,774)**	(9,774)
	166,178	134,764	**85,162**	81,782

The Group's balances of trade receivables and trade payables with associates are disclosed in notes 24 and 29 to the financial statements, respectively. The amounts due from/to associates are unsecured, interest-free and are repayable on demand.

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20. INVESTMENTS IN ASSOCIATES (continued)

Particulars of the principal associates are as follows:

Name	Place of registration and operations	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/Mainland China	RMB74,000,000	29.4	Design, research, development and sale of integrated circuits and related electronic products
Shenzhen Weigao Semi-conductor Technology Co., Ltd.#* (深圳市微高半導體科技有限公司)	The PRC/Mainland China	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/Mainland China	RMB11,332,729	20.07	Development, manufacture and sale of camera lenses for mobile phones
Shenzhen Zhongxing Xinyu FPC Company Limited#* (深圳市中興新宇軟電路有限公司)	The PRC/Mainland China	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/Mainland China	HKD30,000,000	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/Mainland China	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.

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:

	2008 RMB'000	2007 RMB'000
Assets	**1,033,807**	696,330
Liabilities	**454,051**	452,377
Revenues	**1,243,691**	1,066,403
Profit	**77,802**	98,539

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21. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted equity investments, at cost	**251,148**	43,464	**243,198**	41,464

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.

As at 31 December 2008, the above unlisted equity investments with a carrying amount of RMB251,148,000 (2007: RMB43,464,000) were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

22. INVENTORIES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**2,015,417**	2,475,242	**649,196**	670,292
Work in progress	**818,438**	697,837	**280,402**	352,239
Finished goods	**2,035,603**	2,190,351	**560,610**	421,283
Contract works in progress	**4,108,578**	2,066,073	**3,720,809**	2,063,062
	8,978,036	7,429,503	**5,211,017**	3,506,876

23. TELECOMMUNICATIONS SYSTEM CONTRACTS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amount due from customers for contract works	**7,894,010**	6,540,218	**8,038,449**	6,153,299
Amount due to customers for contract works	**(2,965,582)**	(1,597,314)	**(2,408,455)**	(472,653)
	4,928,428	4,942,904	**5,629,994**	5,680,646
Contract costs incurred plus recognised profits less recognised losses to date	**32,018,956**	20,711,738	**23,248,757**	17,036,218
Less: Progress billings	**(27,090,528)**	(15,768,834)	**(17,618,763)**	(11,355,572)
	4,928,428	4,942,904	**5,629,994**	5,680,646

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade and bills receivables	**13,865,230**	10,573,067	**16,630,122**	12,015,807
Impairment	**(1,702,254)**	(1,236,853)	**(1,370,103)**	(1,069,236)
	12,162,976	9,336,214	**15,260,019**	10,946,571
Current portion	**(11,550,968)**	(8,755,207)	**(14,700,000)**	(10,544,856)
Long-term portion	**612,008**	581,007	**560,019**	401,715

Progress payment for telecommunications system contracts is normally made in accordance with the agreed payment schedule. The Group's trading terms with its major customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 90 days and is extendable up to one year 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.

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	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 6 months	**10,216,760**	8,153,438	**10,686,644**	9,005,575
7 to 12 months	**1,495,092**	954,568	**2,323,405**	980,048
1 to 2 years	**444,240**	221,696	**1,460,119**	682,223
2 to 3 years	**6,884**	6,512	**549,041**	129,680
Over 3 years	**—**	—	**240,810**	149,045
	12,162,976	9,336,214	**15,260,019**	10,946,571
Current portion of trade and bills receivables	**(11,550,968)**	(8,755,207)	**(14,700,000)**	(10,544,856)
Long-term portion	**612,008**	581,007	**560,019**	401,715

The movements in the provision for impairment of trade and bills receivables are as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**1,236,853**	522,811	**1,069,236**	469,228
Impairment losses recognised (note 6)	**478,818**	714,042	**315,829**	600,008
Amount write off as uncollectible	**(7,553)**	—	**(14,962)**	—
Impairment losses reversed	**(5,864)**	—	**—**	—
	1,702,254	1,236,853	**1,370,103**	1,069,236

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

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB808,889,000 (2007: RMB572,321,000) with a carrying amount of RMB879,925,000 (2007: RMB579,236,000). 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	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**4,816,412**	4,177,621	**5,114,829**	3,787,497
Less than one year past due	**5,866,359**	4,313,249	**6,864,336**	6,008,454
	10,682,771	8,490,870	**11,979,165**	9,795,951

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.

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, a jointly-controlled entity, associates and related companies included in the above are as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Subsidiaries	**—**	—	**6,183,968**	4,037,091
The ultimate holding company	**943**	8	**—**	—
Jointly-controlled entity	**—**	194	**—**	438
Associates	**21,133**	152	**19,354**	—
Related companies	**6,156**	1,085	**5,488**	8,521
	28,232	1,439	**6,208,810**	4,046,050

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

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

As at 31 December 2008, the Group factored trade receivables of RMB2,412,509,000 (2007: RMB3,296,377,000) to various banks of cash. 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.

The Company entered into a telecommunications system project with an African telecommunications operator with a total contract amount of US$1,000,000,000. The related accounts receivable is to be settled by promissory notes issued by the telecommunications operator with maturity dates ranging from 3 to 13 years. A government strategic bank in the PRC has agreed to factor these promissory notes pursuant to a receivables purchase agreement. During the financing period, the bank will charge interest at LIBOR+1.5% which will be shared by the Company and the telecommunications operator at a predetermined portion. If there is any delay or non-payment of interest by the telecommunications operator, the Company bears no risk and is not responsible for such payment and the related penalties. If there is default in the payment of the principal amount, the Company would bear the first 20% of default losses on the factored amount. As at 31 December 2008, under the above arrangement, accounts receivable due from the customer amounted to RMB3,542,011,000 among which RMB2,833,609,000 has been derecognised from the consolidated balance sheet as they have fulfilled the derecognition conditions as stipulated in HKAS 39. An associated liability of RMB708,402,000 has been recognised in the consolidated balance sheet to the extent of the Company's continuing involvement.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**355,887**	311,362	**18,546**	85,165
Deposits and other receivables	**2,118,370**	2,478,887	**1,549,193**	1,483,128
Due from subsidiaries	**—**	—	**1,289,166**	1,349,247
Due from related companies	**351**	2,377	**1,937**	—
Dividends receivable	**2,034**	—	**23,848**	184,589
	2,476,642	2,792,626	**2,882,690**	3,102,129

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 whom there was no recent history of default.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Forward currency contracts				
Assets	**—**	123,644	**—**	123,644
Liabilities	**12,560**	7,876	**12,560**	—

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27. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The derivative financial instruments for the Group and the Company at 31 December 2008 represent 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. Changes in the fair value amounting to RMB128,328,000 were charged to the income statement during the year.

28. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**11,472,650**	6,234,384	**8,331,272**	4,603,246
Time deposits	**7,756**	248,786	**—**	36,903
	11,480,406	6,483,170	**8,331,272**	4,640,149
Less: Pledged bank deposits	**(136,246)**	(173,421)	**(7,522)**	(35,784)
Cash and cash equivalents	**11,344,160**	6,309,749	**8,323,750**	4,604,365

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi amounted to approximately RMB6,467,149,000 (2007: RMB3,496,992,000). The Renminbi is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between 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.

29. TRADE AND BILLS PAYABLES

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 6 months	**15,682,255**	11,564,337	**19,435,358**	12,385,295
7 to 12 months	**76,570**	167,747	**20,361**	18,172
1 to 2 years	**22,529**	30,528	**545**	1,220
2 to 3 years	**8,062**	12,151	**620**	5,670
Over 3 years	**24,589**	27,906	**27,409**	24,053
	15,814,005	11,802,669	**19,484,293**	12,434,410

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29. TRADE AND BILLS PAYABLES (continued)

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Subsidiaries	**—**	—	**12,503,470**	8,995,512
The ultimate holding company	**129,468**	88,023	**—**	—
Related companies	**87,226**	100,979	**152**	4,992
Associates	**43,785**	30,169	**—**	—
	260,479	219,171	**12,503,622**	9,000,504

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

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

30. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2008	2007	**2008**	2007
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Receipts in advance		**1,392,862**	1,491,219	**1,640,192**	1,502,276
Other payables		**1,656,414**	1,519,165	**1,162,855**	1,408,128
Accruals		**1,517,208**	1,262,770	**727,935**	172,078
Provision for warranties	35	**92,066**	59,068	**57,200**	35,300
Due to the ultimate holding company		**308**	313	**308**	313
Due to subsidiaries		**—**	—	**2,973,991**	1,678,722
Due to related companies		**2,611**	5,326	**549**	271
		4,661,469	4,337,861	**6,563,030**	4,797,088

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

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31. INTEREST-BEARING BANK BORROWINGS

Group	2008 Effective interest rate (%)	2008 Maturity	2008 RMB'000	2007 Effective interest rate (%)	2007 Maturity	2007 RMB'000
Current						
Bank loans — unsecured	3.18-9.99	2009	863,893	4.43-8.95	2008	3,085,596
Bank loans — unsecured	LIBOR+0.4-1.6	2009	2,423,611	LIBOR+0.4-1.5	2008	1,314,828
Bank loans — secured	1.68-6.25	2009	1,282,078	9.126	2008	3,000
Bank loans — secured	LIBOR+1.5-2	2009	1,094,903			—
			5,664,485			4,403,424
Non-current						
Bank loans — secured	2	2010-2012	281,523	LIBOR+1.5-2	2009	863,404
Bank loans — unsecured	LIBOR+0.5	2010	205,038	LIBOR+0.4-0.5	2009-2010	328,707
Bank loans — unsecured	3.78-11.5	2010	805,986	4.77-8.3	2009-2012	893,118
			1,292,547			2,085,229
			6,957,032			6,488,653

Company	2008 Effective interest rate (%)	2008 Maturity	2008 RMB'000	2007 Effective interest rate (%)	2007 Maturity	2007 RMB'000
Current						
Bank loans — unsecured	3.18-6.15	2009	678,422	5.5-6.56	2008	2,730,414
Bank loans — unsecured				LIBOR+0.4-0.6	2008	1,095,690
Bank loans — unsecured				LIBOR+1.2-1.5	2008	219,138
Bank loans — secured	1.68-6.25	2009	1,268,791			—
			1,947,213			4,045,242
Non-current						
Bank loans — unsecured	3.78-4.32	2010	800,000	4.05-5.75	2009	582,616
Bank loans — unsecured	LIBOR+0.5	2010	205,039	LIBOR+0.4-0.5	2009	328,707
			1,005,039			911,323
			2,952,252			4,956,565

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31. INTEREST-BEARING BANK BORROWINGS (continued)

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**5,664,485**	4,403,424	**1,947,213**	4,045,242
In the second year	**1,052,737**	1,095,398	**1,005,039**	692,184
In the third to fifth years, inclusive	**239,810**	529,642	**—**	219,139
Beyond five years	**—**	460,189	**—**	—
	6,957,032	6,488,653	**2,952,252**	4,956,565

Notes:

(a) Except for bank loans of approximately RMB5,270,333,000 (2007: RMB3,361,434,000) which are denominated in United Sates Dollars, all borrowings are in Renminbi, HKD or in Indian Rupee (INR).

(b) Except for the unsecured bank loans with a carrying amount of RMB1,669,879,000 (2007: RMB3,978,714,000) and secured bank loans with a carrying amount of RMB1,563,601,000 (2007: RMB3,000,000), 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	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Pledged bank deposits	**136,246**	173,421	**7,522**	35,784
Trade receivables	**3,281,300**	3,296,377	**3,189,280**	3,421,377
	3,417,546	3,469,618	**3,196,802**	3,457,161

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Other banks or government	**694,810**	737,143	**400,000**	400,000

The carrying amounts of the Group's and the Company's borrowings approximate to their fair values which have been calculated by discounting the expected future cash flows at the prevailing interest rates.

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32. BONDS CUM WARRANTS

	2008 RMB'000
Nominal value of bonds cum warrants issued during the year	**4,000,000**
Equity component	**(580,210)**
Direct transaction costs	**(38,556)**
Liability component at the issuance date	**3,381,234**
Interest expense	**133,418**
Interest paid	**—**
Liability component at 31 December	**3,514,652**

On 30 January 2008, the Company issued 40,000,000 bonds cum warrants with a nominal value of RMB100 each, amounting to RMB4 billion in total. The bonds and warrants are listed on the Shenzhen Stock Exchange. The bonds are guaranteed by China Development Bank, and have a maturity of five years from the date of issuance. Each bond entitles its subscriber to an unconditional issue of 1.63 warrants, namely 65,200,000 warrants are issuable in aggregate. The detachable warrants are valid for 24 months from the date of listing, conferring rights to subscribe for one A share at an exercise price of RMB78.13 for every two warrants held. Since the dividend payment and the completion of bonus issue during the year ended 31 December 2008, the exercise price of the warrants has been adjusted to RMB55.58 and the holders of the warrants are entitled to subscribe for 0.703 A share for every warrant held.

The bonds bear interests at a rate of 0.8% per annum payable in arrears on 30 January each year.

The fair value of the liability component was estimated at the issue date using a market interest rate for an equivalent bond without the detachable warrants. The residual amount is allocated to the detachable warrants that is assigned as the equity component and is included in shareholders' equity.

The carrying amount of liability component approximates to its fair value. The fair value of the liability component is estimated using an equivalent market interest rate for a similar bond.

33. PROVISION FOR RETIREMENT BENEFITS

The Group and the Company provide certain of the eligible staff with post-retirement benefits pursuant to a retirement benefit 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 2008 in accordance with HKAS 19 *Employee Benefits*. The present values of defined benefit obligations and current service costs are determined actuarially based on the projected unit credit method.

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

Group and Company

	2008 RMB'000	2007 RMB'000
Present value of the obligations	**57,034**	46,749
Unrecognised actuarial losses	**(20,971)**	(12,341)
Net liability in the balance sheet	**36,063**	34,408

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33. PROVISION FOR RETIREMENT BENEFITS (continued)

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

	2008 RMB'000	2007 RMB'000
Net liability at beginning of year	**34,408**	32,058
Benefit expenses recognised in the consolidated income statement	**2,356**	3,087
Pension payments made	**(701)**	(737)
Net liability at end of year	**36,063**	34,408

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

	2008	2007
(a) Discount rate	**3.50%**	4.75%

(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 benefit expenses recognised in the consolidated income statement for the year are as follows:

	2008 RMB'000	2007 RMB'000
Current service cost	**—**	—
Interest cost on benefit obligations	**1,996**	2,145
Net actuarial losses recognised in the year	**360**	942
Benefit expense included in staff costs (note 6)	**2,356**	3,087

34. OTHER LONG-TERM PAYABLES

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

35. PROVISION FOR WARRANTIES

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
At beginning of year	**59,068**	256,152	**35,300**	230,417
Additional provisions	**135,045**	61,793	**117,773**	61,793
Amounts utilised during the year	**(102,047)**	(258,877)	**(95,873)**	(256,910)
At 31 December	**92,066**	59,068	**57,200**	35,300

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35. PROVISION FOR WARRANTIES (continued)

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 returns.

36. DEFERRED TAX

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred tax assets:				
At beginning of year	**295,750**	210,923	**256,408**	194,548
Deferred tax credited/(charged) to the income statement during the year (note 10)	**99,496**	84,827	**(32,468)**	61,860
At end of year	**395,246**	295,750	**223,940**	256,408

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred tax assets:				
Provision against inventories	**72,835**	65,450	**44,486**	63,830
Provision for warranties	**25,557**	10,632	**15,109**	6,354
Provision for retirement benefits	**5,161**	6,195	**5,161**	6,195
Tax losses	**84,957**	71,155	**—**	71,155
Overseas tax	**169,407**	136,695	**166,426**	136,696
Unrealised profits arising on consolidation	**42,348**	62,083	**—**	—
	400,265	352,210	**231,182**	284,230
Deferred tax liabilities:				
Intangible assets	**(5,019)**	(56,460)	**(7,242)**	(27,822)

At 31 December 2007 and 2008, tax losses of approximately RMB362,606,000 (2007: RMB389,043,000) have not been recognised as deferred tax assets since the possibilities of utilising such amount is considered remote.

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37. ISSUED CAPITAL

	2008	2007
	RMB'000	RMB'000
Registered, issued, and fully paid		
State-owned A shares of RMB1.00 each	**548,912**	392,080
Legal person A shares of RMB1.00 each	**41,614**	29,724
Individual A shares of RMB1.00 each	**528,593**	377,567
H shares of RMB1.00 each	**224,211**	160,151
	1,343,330	959,522

Pursuant to the resolution of the annual general meeting on 27 May 2008, the registered capital of the Company was increased by capitalising the capital reserve fund of the Company. Bonus Shares was 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 increased from RMB959,521,650 to RMB1,343,330,310 upon completion of the bonus issue.

38. 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 members 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 by purchasing 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.

In the meanwhile, 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 verified the qualifications of the aforesaid employees.

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38. SHARE INCENTIVE SCHEME (continued)

Subject to the capitalisation from capital reserve for 2007 referred to in note 37 to the financial statements and approved by the board of directors on 25 November 2008, the aggregate amounts of the Awarded Shares and Potential Awarded Shares were correspondingly adjusted to 60,454,800 shares and 6,717,200 shares respectively.

The grant of Potential Awarded Shares to the Potential Participants was approved by the board of directors on 25 November 2008. Potential Participants shall pay the subscription amounts for the Potential Awarded Shares by purchasing 5.2 Potential Awarded Shares at the subscription price for every 10 Potential Awarded Shares granted. The subscription price is RMB21.28 per share, being the closing price of the Company's A shares as quoted on the Shenzhen Stock Exchange on the trading day before the date on which the board meeting for granting the Potential Awarded Shares was convened.

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 and Potential Awarded Shares. The shares awarded by the Company under the share incentive scheme are considered as shared-based payments under HKFRS 2.

The fair value of shares awarded during the year was estimated as at the date of grant, taking into account the expected future dividend yield prior to the vesting of the Awarded Shares to 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 subject 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 years 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 Participants' applications for issuing the Awarded Shares in the first, second and third batches, respectively.

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39. 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 5 and 6 of the financial statements.

The capital reserve of the Group includes 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 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 fund cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

The share incentive scheme reserve was created for the share incentive scheme launched by the Company that provides incentive and reward to certain employees of the Company and its subsidiaries.

(b) Company

	Notes	**Issued capital**	**Capital reserve**	**Share incentive scheme reserves**	**Statutory reserves**	**Exchange fluctuation reserve**	**Retained profits**	**Proposed final dividend**	**Total**
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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	11	—	—	—	—	—	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	38	—	—	297,668	—	—	—	—	297,668
At 31 December 2007 and 1 January 2008		959,522	5,467,821	300,148	769,603	(3,651)	1,423,418	239,880	9,156,741
Final 2007 dividend declared		—	—	—	—	—	—	(239,880)	(239,880)
Profit for the year	11	—	—	—	—	—	975,994	—	975,994
Proposed final 2008 dividend	12	—	—	—	—	—	(402,999)	402,999	—
Exchange realignments and other expenses recognised directly in equity		—	(74)	—	—	(7,842)	—	—	(7,916)
Equity-settled share expense	38	—	—	299,551	—	—	—	—	299,551
Transfer from capital reserve		383,808	(383,808)	—	—	—	—	—	—
Issue of bonds cum warrants		—	580,210	—	—	—	—	—	580,210
At 31 December 2008		1,343,330	5,664,149	599,699	769,603	(11,493)	1,996,413	402,999	10,764,700

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40. CONTINGENT LIABILITIES

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

	2008 **RMB'000**	2007 RMB'000
Guarantees given to banks in respect of performance bonds	**8,245,934**	5,093,486
	8,245,934	5,093,486

(b) In November 2005, a customer instituted litigation against the Company and its subsidiary 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. In December 2008, the Jiangsu Provincial High Court handed down its judgement for the first trial, which ruled that: (i) RMB35 million with interest is to be refunded to the customer by the subsidiary; (ii) losses of the subsidiary amounting to RMB11.7 million are to be indemnified by the customer; and (iii) the Company is to be jointly responsible for the aforesaid liability of the subsidiary. The Company filed an appeal with the Supreme People's Court after receiving the first trial judgement and is currently awaiting the second trial. A real estate owned by the Company, which is located in Nanjing with an original value of RMB117.2 million, is pledged for the litigation. During the year, the trial court of the case lifted the order of freezing the Company's cash in bank and on hand of RMB31 million. As at the date of approval of the financial statements, the Group had not made any payments of compensation pursuant to the aforesaid judgement. Based on the legal opinion furnished by lawyers engaged by the Company, the directors are of the opinion that the aforesaid litigation will not have any material adverse impact on the financial conditions and operating results of the Group and no provision was made in respect of such claims in the financial statements.

(c) On 16 December 2005, a supplier instituted arbitration against the Company to demand indemnity from the Company for a breach of contract and infringement of intellectual property rights in a total amount of USD36.5 million (approximately RMB249.1 million). As at the date of approval of the financial statements, the supplier had applied to the arbitration court for the withdrawal of its claim and the case, although the Company had yet to receive an official notice from the arbitration court as at the date of approval of the financial statements. Based on the legal opinion furnished by lawyers engaged by the Company, the directors are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group and no provision was made in respect of such claims in the financial statements.

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40. CONTINGENT LIABILITIES (continued)

(d) In August 2006, a customer instituted arbitration against the Company to demand indemnity from the Company in the amount of Rs. 763.0 million (approximately RMB65.9 million). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract to demand for damages. In February 2008, the arbitration authorities issued its award ruling that an indemnity of Rs. 328.0 million (approximately RMB28.4 million) is to be paid by the Company. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a counter-claim against the customer's breach of contract. As at the date of approval of the financial statements, the Group had not made any payments of compensation pursuant to the aforesaid judgement. The legal department of the Company is of the view that it is difficult to predict the final outcome of the case at this stage. In view of the above, the Group had made provisions in the financial statements based on the arbitration award. The directors are of the opinion that the aforesaid arbitration will not have any material adverse impact on the financial conditions and operating results of the Group.

(e) In July 2008, an agent filed arbitration against the Company demanding the payment of agency fees and interests with a total amount of USD35.8 million (approximately RMB244.8 million). The case was heard before the South China Sub-Commission of the China International Economic and Trade Arbitration Commission during 17 to 19 January 2009. As at the date of approval of the financial statements, the Company is still awaiting the arbitration award. Based on the legal opinion furnished by lawyers engaged by the Company, the directors are of the opinion that the aforesaid litigation will not have any material adverse impact on the financial conditions and operating results of the Group and no provision was made in respect of such claims in the financial statements.

41. FINANCIAL GUARANTEE CONTRACT

The Group has provided a financial guarantee for an independent customer with a maximum amount of RMB50,000,000 including 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 the amount of the best estimate of the expenditure required to settle the present obligation at the balance sheet date and the amount determined in accordance with HKAS 18.

42. PLEDGE OF ASSETS

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

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43. 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 6 to the financial statements. During the year, approximately RMB27,569,000 (2007: RMB24,075,000) of operating lease rental income has 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 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2008	2007
	RMB'000	RMB'000
Within one year	**264,396**	183,471
In the second to fifth years, inclusive	**182,398**	207,199
After five years	**989**	2,394
	447,783	393,064

44. COMMITMENT

	Group	
	2008	2007
Contracted, but not provided for:		
Land and buildings	**301,419**	582,263
Investments in associates	**265,702**	255,234
	567,121	837,497
Authorised, but not contracted for:		
Land and buildings	**5,875,869**	—

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45. RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

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

	Notes	2008 RMB'000	2007 RMB'000
The ultimate holding company:			
Purchase of raw materials	(a)	**522,828**	492,233
Sale of finished goods	(b)	**132**	—
Rental expense	(e)	**28,535**	19,018
Shareholders of the ultimate holding company:			
Purchase of raw materials	(a)	**79,630**	158,294
Sale of finished goods	(d)	**8,196**	8,205
Jointly-controlled entities:			
Purchase of raw materials	(a)	**—**	1,503
Associates:			
Purchase of raw materials	(a)	**179,899**	160,707
Sale of finished goods	(b)	**83,328**	12,262
Entities controlled by key management personnel of the Group:			
Purchase of raw materials	(a)	**221,104**	240,901
Sale of finished goods	(b)	**23,377**	30,169
Rental expense	(f)	**34,001**	21,418
Shareholder of a subsidiary:			
Corporate guarantee	(c)	**—**	80,000
Fellow subsidiaries:			
Purchase of raw materials	(a)	**260,505**	213,882
Sale of finished goods	(b)	**116**	338

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45. RELATED PARTY TRANSACTIONS (continued)

(I) Transactions with related parties (continued)

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

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 a related party at nil consideration, and it has been terminated in 2008.

(d) The 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 rate of RMB30-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 29 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 30 to the financial statements.

(III) Compensation of key management personnel of the Group

	2008 **RMB'000**	2007 RMB'000
Short-term employee benefits	**9,821**	10,022
Post-employment benefits	**200**	159
Total compensation paid to key management personnel	**10,021**	10,181

Included in the transactions with the Group's ultimate holding company and the fellow subsidiaries, certain transactions amounting to approximately RMB812 million constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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46. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2008	Group			
Financial assets	**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**
Available-for-sale investments	–	–	251,148	251,148
Trade and bills receivables/Long term trade receivables	–	12,162,976	–	12,162,976
Factored trade receivables	–	2,412,509	–	2,412,509
Financial assets included in prepayments, deposits and other receivables	–	2,120,756	–	2,120,756
Pledged bank deposits	–	136,246	–	136,246
Cash and cash equivalents	–	11,344,160	–	11,344,160
	–	28,176,647	251,148	28,427,795

Financial liabilities	**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**
Trade and bills payables	–	15,814,005	–	15,814,005
Bank advances on factored trade receivables	–	2,412,509	–	2,412,509
Financial liabilities included in other payables and accruals	–	3,052,195	–	3,052,195
Derivative financial instruments	12,560	–	–	12,560
Interest-bearing bank borrowings	–	6,957,032	–	6,957,032
Financial guarantee contract	–	–	3,689	3,689
Bonds cum warrants	–	3,514,652	–	3,514,652
	12,560	31,750,393	3,689	31,766,642

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(Prepared under Hong Kong Financial Reporting Standards)
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46. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2007	Group			
Financial assets	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
Available-for-sale investments	—	—	43,464	43,464
Trade and bills receivables/Long term trade 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

Financial liabilities	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
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

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46. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2008	Company			
Financial assets	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
Available-for-sale investments	–	–	243,198	243,198
Trade and bills receivables/Long term trade receivables	–	15,260,019	–	15,260,019
Factored trade receivables	–	2,537,509	–	2,537,509
Financial assets included in prepayments, deposits and other receivables	–	2,864,146	–	2,864,146
Pledged bank deposits	–	7,522	–	7,522
Cash and cash equivalents	–	8,323,750	–	8,323,750
	–	28,992,946	243,198	29,236,144

Financial liabilities	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
Trade and bills payables	–	19,484,293	–	19,484,293
Bank advances on factored trade receivables	–	2,537,509	–	2,537,509
Financial liabilities included in other payables and accruals	–	5,777,895	–	5,777,895
Derivative financial instruments	12,560	–	–	12,560
Interest-bearing bank borrowings	–	2,952,252	–	2,952,252
Financial guarantee contract	–	–	3,689	3,689
Bonds cum warrants	–	3,514,652	–	3,514,652
	12,560	34,266,601	3,689	34,282,850

NOTES TO FINANCIAL STATEMENTS

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46. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2007	Company			
Financial assets	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
Available-for-sale investments	—	—	41,464	41,464
Trade and bills receivables/Long term trade receivables	—	10,946,571	—	10,946,571
Factored trade receivables	—	3,421,377	—	3,421,377
Financial assets included in prepayments, deposits and other receivables	—	3,016,964	—	3,016,964
Derivative financial instruments	123,644	—	—	123,644
Pledged bank deposits	—	35,784	—	35,784
Cash and cash equivalents	—	4,604,365	—	4,604,365
	123,644	22,025,061	41,464	22,190,169

Financial liabilities	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
Trade and bills payables	—	12,434,410	—	12,434,410
Bank advances on factored trade receivables	—	3,421,377	—	3,421,377
Financial liabilities included in other payables and accruals	—	4,589,710	—	4,589,710
Interest-bearing bank borrowings	—	4,956,565	—	4,956,565
Financial guarantee contract	—	—	3,689	3,689
	—	25,402,062	3,689	25,405,751

NOTES TO FINANCIAL STATEMENTS

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47. 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 2008, 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 floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. At 31 December 2008, approximately 46% (2007: 61%) of the Group's interest-bearing borrowings bore interest at fixed rates.

All of the interest-bearing borrowings with floating interest rates are in United State dollars ("USD"). If there would be a general increase/decrease in the interest rate of the bank borrowings with floating interest rates by 25 basis points, with all other variable held constant, the profit before tax for the Group would have been decreased/increased by approximately RMB3.7 million and RMB2.9 million for the years ended 31 December 2008 and 2007 respectively and other components, of equity would not change.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is predominately in USD, EUR and RMB and certain portion of the bank loans is denominated in USD. The Group entered into forward currency contracts and tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sale contracts to minimise its transactional currency exposures. The Group takes rolling forecast on foreign currency revenue and expenses and 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 USD and Euro exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and other components of equity would not change.

NOTES TO FINANCIAL STATEMENTS

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47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax RMB'000
2008		
If RMB weakens against USD	3	26,855
If RMB strengthens against USD	(3)	(26,855)
If RMB weakens against EUR	5	61,722
If RMB strengthens against EUR	(5)	(61,722)
2007		
If RMB weakens against USD	5	40,344
If RMB strengthens against USD	(5)	(40,344)
If RMB weakens against EUR	5	52,502
If RMB strengthens against EUR	(5)	(52,502)

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 and 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 counterparties 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.

NOTES TO FINANCIAL STATEMENTS

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47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 and bonds cum warrants, 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 shareholders' value.

The Group manages its capital structure and makes adjustments to it, in the 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 for managing capital during the years ended 31 December 2008 and 31 December 2007.

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	
	2008	2007
	RMB'000	RMB'000
Interest-bearing bank borrowings	**6,957,032**	6,488,653
Total equity	**15,183,547**	12,888,408
Total equity and interest-bearing bank borrowings	**22,140,579**	19,377,061
Gearing ratio	**31%**	33%

48. POST BALANCE SHEET EVENTS

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 3 bonus shares for every 10 Shares held by the shareholders on the record date. The registered capital of the Company will increase from RMB1,343,330,310 to RMB1,746,329,403 upon completion of the bonus issue. Based on a total of 1,343,330,310 shares in issue at the record date, 402,999,093 bonus shares will be issued by the Company, of which 67,263,437 Shares are bonus H shares and 335,735,656 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.

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49. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

50. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 March 2009.

DOCUMENTS AVAILABLE FOR INSPECTION

1. Text of the 2008 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 2008 prepared in accordance with the PRC ASBEs 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 affixed with seal of the certified public accountants and duly signed under the hand and seal of 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 year.

5. Articles of Association.

By order of the Board

Hou Weigui
Chairman

20 March 2009