中兴通讯股份有限公司

ZTE CORPORATION

Annual Report 2010

stock code : 000063.SZ 763.HK

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 Sixteenth Meeting of the Fifth Session of the Board of Directors of the Company. Mr. Lei Fanpei, Vice Chairman, was unable to attend the meeting due to work reasons and authorised Mr. Hou Weigui, 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 2010 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"	ZTE and one or more of 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 Group Corporation 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 (including Hong Kong Accounting Standards ("HKASs") 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 Limited
"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"	Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited
"ZTE Kangxun"	Shenzhen ZTE Kangxun Telecom Company Limited
"Zhongxing Software"	Shenzhen Zhongxing Software Company, Limited
"ZTE HK"	ZTE (H.K.) Limited
"Changfei"	Shenzhen Changfei Investment Company, Limited
"Lead"	Shenzhen Lead Communications Company, Limited
"Ruide"	Shenzhen Ruide Electronic Industrial Company, Limited
"Hekang"	Hekang Investment Management Company Limited of Shenzhen
"Juxian"	Shenzhen Juxian Investment 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	Third-generation mobile networks supporting 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 key standards bodies such as 3GPP and 3GPP2.
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.
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).
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.
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.
UMTS	A reference to WCDMA standards generally used in Europe. 3G technologies have been collectively referred to as UMTS (Universal Mobile Telecommunications System) by European Telecommunications Standards Institute (ETSI) since the early 1990s.
xPON	Optical access that applies WDM technology with optical fiber as transmission medium, enabling high access bandwidth and end-to-end POS (passive optical splitting) transmission. xPON has a significant edge over other optical access technology and comprises EPON and GPON.
Carrying network	Carrying level network that provides the basic carriage function for the services. It directs each service information flow from its source to the destination according to various service requirements and modulates network resources on the basis of the attributes of these requirements to ensure the functionality and performance of these services, providing QoS assurance and network safety assurance for communications of different types and natures.
Core network	A mobile network comprises a wireless access network and a core network, the latter of which provides services such as call control, billing and mobility.

LTE	LTE (Long Term Evolution) refers to the long-term evolution of 3G technology with OFDM as the core, and is regarded as 4G in the making. LTE is being promoted by 3GPP and its major performance targets include maximum speeds of 100Mbps (download) and 50Mbps (upload) using 20MHz bandwidth.
UPP	Unified Packet Platform, a platform for future medium- to high-end products developed by ZTE using IP division technology. It supports a wide range of medium and high-end products in various product lines such as carrying networks and core networks and raises the start-up thresholds of various products through standardisation and shared core components for better R&D efficiency and product competitiveness. It supports two in-depth measurements to satisfy general application requirements of carriers and corporate users.
SDR	Software Defined Radio, a radio communication system where different protocol technologies are implemented by modifications in software and configuration without hardware replacement. The SDR technology provides solutions to a multi-mode, multi-frequency and scalable wireless system. The SDR platform is a new-generation multi-mode, multi-frequency and scalable wireless technology platform developed by ZTE.
V4 Platform	A new-generation system platform designed and developed by ZTE to meet market demands for new-generation core network products, wireless base station controls, services and wirelines. Its software is based on a sound intermediary software framework system with high availability and its hardware represents an improved version of ATCA.
ATCA Platform	ATCA is the abbreviation of Advanced Telecom Computing Architecture, an advanced telecom computing structure announced by PICMG in 2002 to provide a standardised platform system architecture for telecom-grade applications. It is being extensively used in the telecommunications industry.
3 Networks' Integration	The integration of the television broadcast network, telecommunications network and the Internet. In practice, this may refer to the provision of the same services and contents on both the television broadcast network and the telecommunications network, or it may refer to the complementary operation of the television broadcast network and the telecommunications network to achieve business integration, such as centralising all video broadcast functions at the former and interactive functions at the latter.
Internet of Things	A network interconnecting all things in the physical world, characterised by comprehensive sensors, reliable transmission and smart processing and aiming at connection among any objects at any time, any location. It can help to realise the organic integration of the human society with the physical world, so that humankind can manage production and life in a more detailed and dynamic way to generally enhance the level of informatisation of the society.
Cloud Computing	A concept underlining the fusion of traditional computing technologies (such as grid computation and distributive computation) with network technologies. The core idea is to centralise the management and modulation of massive computing resources connected through the network, forming a pool of computing resources that serve users on an as-needed basis. Cloud Computing is applied in commercial offerings such as SaaS, PaaS and IaaS.

Company Profile

The Company is a leading integrated communications manufacturer in the world market and a provider of global telecommunications solutions, with its shares listed on the Shenzhen Stock Exchange and the Main Board of the Hong Kong Stock Exchange.

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, becoming the first A-share company to be listed on 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, terminals and telecommunications software systems, services and other products.

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 various telecommunications products in China with longstanding business ties with China's leading telecommunications service providers such as China Mobile, China Telecom and China Unicom. With respect to the global telecommunications market, the Group has provided innovative technology and product solutions to telecommunications service providers in more than 140 countries and regions, making contributions to facilitate communications via multiple means, such as voice, data, multi-media and wireless broadband, for users all over the world.

Corporate Information

1.	Legal name (in Chinese) Chinese abbreviation Legal name (in English) English abbreviation	中興通訊股份有限公司 中興通訊 ZTE Corporation ZTE
2.	Legal representative	Hou Weigui
3.	Secretary to the Board of Directors/ Company Secretary	Feng Jianxiong
	Securities affairs representatives	Xu Yulong Li Fei
	Correspondence Address	No. 55, Hi-tech Road South, Shenzhen, Guangdong Province People's Republic of China
	Telephone Facsimile E-mail	+86 755 26770282 +86 755 26770286 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 Website E-mail	518057 http://www.zte.com.cn 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	Shi Lirong Feng Jianxiong
6.	Newspapers designated for information disclosure by the Company	China Securities Journal, Securities Times, Shanghai Securities News
	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	No. 55, Hi-tech Road South, Shenzhen, Guangdong Province, People's Republic of China

Corporate Information

7.	Listing information	A shares Shenzhen Stock Exchange Abbreviated name of stock: 中興通訊 Stock code: 000063
		Bonds Shenzhen Stock Exchange Abbreviated name of bond: 中興債1 Bond code: 115003
		H shares Hong Kong Stock Exchange Abbreviated name of stock: ZTE Stock code: 763
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	Latham & Watkins 41/F, One Exchange Square, 8 Connaught Place, 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 relevant information

Initial registration	11 November 1997
Initial registered address	6/F, Block 710, Liantang Pengji Industrial Zone, Luohu District, Shenzhen, Guangdong Province People's Republic of China
Date of change of registration	29 September 2000
Registered address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China
Licence registration number	440301103852869
Tax registration	44030127939873X
Entity code	27939873-X

Chairman's Statement

DEAR SHAREHOLDERS,

I am pleased to present to you the report of the Group for the financial year ended 31 December 2010. On behalf of the Board of Directors, I would like to express sincere gratitude for your concern and support for ZTE.

In tandem with world economic recovery, the global telecommunications industry was gradually emerging from its doldrums in 2010. At ZTE, the election of new sessions of the Board of Directors and the Supervisory Committee and the appointment of senior management members for a new term were successfully completed. The Company continued to report stable development in its operations and management, indicated primarily by the following:

OPERATING RESULTS

The Group's operating revenue for 2010 amounted to RMB70.264 billion, representing a year-on-year growth of 16.58%, while net profit attributable to shareholders of the parent company grew 32.22% to RMB3.250 billion. Basic earnings per share amounted to RMB1.17. The Group's international business continued to enjoy stable growth in 2010, reporting revenue of RMB38.066 billion, a 27.45% growth over the previous year, accounting for 54.18% of the Group's overall operating revenue.

BUSINESS DEVELOPMENT

Competition in the industry was ferocious in 2010 as the global economy started to pick up. During the year, the global communications industry was boosted by increasing investments in mobile Internet, broadband and access products and optical transmission and data communication products. Industry consolidation continued to gain momentum, while the market was somewhat overshadowed by rising international trade protectionism. Nevertheless, the Group succeeded in countering the pressure to deliver exceptionally strong results.

In the home market, the Group benefited from the proactive investment policies of the government as well as the carriers to report steady increase in domestic market shares in 2010. Internationally, our Group gained significant ground in its cooperation with mainstream carriers, as we overcame obstacles to achieve breakthrough in carriers' networks and terminal products despite intense competition and signs of trade protectionism.

In 2010, the Group consolidated its product lines and redeployed some of its technical staff to assume front-desk marketing duties in order to enhance its servicing capabilities. Detailed management was implemented with a range of measures taken to improve efficiency. Meanwhile, employees were encouraged to develop their skills and abilities so that they could progress in tandem with the Company.

CORPORATE GOVERNANCE

In 2010, the Company continued to improve its corporate governance systems and regimes, regulate operations and optimise internal control regimes in accordance with requirements of the Company Law, Securities Law, Corporate Governance Standards for Listed Companies and relevant laws and regulations of CSRC. During the reporting period, the System for the Administration of External Information Users, System of Accountability for Significant Errors in Information Disclosure of Annual Reports and System of Derivative Investment Risk Control and Information Disclosure were formulated in compliance with relevant requirements of the regulatory authorities. In accordance with relevant requirements of Shenzhen CSRC, the Company commenced a specific programme on regulating fundamental financial and accounting work in April 2010 and completed self-inspection and rectification of fundamental financial and accounting in October 2010. In September 2010, the Group conducted self-inspection on the establishment and implementation of its long-term mechanism to prevent fund appropriation by the major shareholder and its associates, and further improvement measures were implemented. Through these activities, our internal corporate governance system and regime was further enhanced.

CORPORATE SOCIAL RESPONSIBILITY

In 2010, the Company implemented relevant strategies in fulfillment of its new mission statement on corporate social responsibility, while continuing to report stable growth in operating income. Since officially becoming a signatory to the United Nations Global Compact in 2009, the Group has been working to incorporate the compact and its ten principles into its operations and corporate culture, seeking to develop more advanced and environment-friendly communications products in fulfillment of its mission and responsibility of providing ongoing enhancements to the experience of human communications. Through our involvements in supply chains, overseas contract projects, staff training, international relief and charity activities, we have also fulfilled our corporate responsibility as a Chinese enterprise in other parts of the world. Our efforts in corporate social responsibility have been widely recognised by governments, international organisations and the media.

DIVIDEND DISTRIBUTION

In view of the Group's solid results of operation for 2010 and taking into account the financial conditions and cash flow of the Group in general, the Board of Directors has recommended a distribution proposal for 2010 as follows: A bonus issue of 2 shares for every 10 shares held and a cash dividend of RMB3 (including tax) for every 10 shares.

OUTLOOK

Looking to the new year, optimisation and upgrade of existing networks, network expansion, and high-end network construction will be the major drivers for carriers' investments in the domestic market. Elsewhere in the world, the development of mobile broadband will stimulate investment in relevant equipment and terminals, while new opportunities will abound in the global deployment of LTE networks. Changing scenarios will continue to emerge in competition among world communications equipment manufacturers. The Company's product solutions are now ready to compete in the international market, and we are now in a crucial start-up period for cooperation with high-end carriers. In this context, the prime task of the Group would be to focus on mainstream carriers, fulfill market demands and add value for customers, further realise its potential for greater efficiency and achieve sustainable development for all business segments.

IN 2011, THE GROUP WILL FOCUS ON THE FOLLOWING:

In the coming year, the Group will proactively respond to the dynamic requirements of customers and strengthen strategic cooperation on the basis of in-depth analysis of the profound changes in the global telecommunications market. The Group will continue with the full implementation of its strategies on high-calibre staff, differentiation, cost-effectiveness and quality, dispensing major efforts to the building of a new culture that calls for bold investigations of innovative business models and technologies, so that we can reward shareholders and the community in general with excellent business results.

Hou Weigui
Chairman

Shenzhen, the PRC
18 March 2011

Major Events of the Group

2010

January	2010	Completed placing of new H shares to raise net proceeds of approximately HKD2,596 million.
January	2010	Received GSM/UMTS orders from South African telecom operator Cell C.
March	2010	Election of new sessions of the Board of Directors and Supervisory Committee and appointments of senior management for a new term.
July	2010	Garnered 2 gold awards and 2 awards of excellence in the "China Proprietary Awards" for our research and innovations.
September	2010	Launched the 100G end-to-end carriage solution to usher in the era of 100G network-wide ultra-broadband transmission.
October	2010	Received the Europe InfoVision Grand Award for our wireline access products.
November	2010	Global debut of the first LTE/DC-HSPA+ network in association of CSL.
November	2010	Appointed as sole developer of WoStore, China Unicom's outlet for application products.
December	2010	Chairman Hou Weigui was elected as one of the "Top 30 Outstanding Persons of Shenzhen in the Past 30 Years" by dominant votes.
December	2010	Named among "Best PRC Corporate Citizens 2010".

Accounting and Business Data Highlights

(I) MAJOR ACCOUNTING DATA OF THE GROUP FOR THE YEAR PREPARED IN ACCORDANCE WITH PRC ASBES

Unit: RMB in millions

Item	Amount
Operating profit	2,589.6
Total profit	4,360.2
Net profit attributable to shareholders of the listed company	3,250.2
Net profit after extraordinary items attributable to shareholders of the listed company	2,732.9
Net cash flow from operating activities	941.9

Extraordinary items and amounts that have been deducted are as follows

Unit: RMB in millions

Extraordinary items	Amount
Non-operating income	259.3
Gains arising from fair value change	83.6
Investment gains	447.0
Others	50.3
Less: Gains/losses arising from the disposal of non-current assets	24.1
Other non-operating expenses	207.4
Effect of income tax	91.3
Total	517.4

(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

	For the year ended 31 December 2010	For the year ended 31 December 2009	Year-on-year change	For the year ended 31 December 2008
Total operating revenue	**70,263.9**	60,272.6	16.58%	44,293.4
Total profit	**4,360.2**	3,324.7	31.15%	2,262.5
Net profit attributable to shareholders of the listed company	**3,250.2**	2,458.1	32.22%	1,660.2
Net profit after extraordinary items attributable to shareholders of the listed company	**2,732.9**	2,338.5	16.87%	1,548.1
Net cash flow from operating activities	**941.9**	3,729.3	(74.74%)	3,647.9

	As at 31 December 2010	As at 31 December 2009	Year-on-year change	As at 31 December 2008
Total assets	**84,152.4**	68,342.3	23.13%	50,865.9
Owners' equity attributable to shareholders of the listed company	**23,093.9**	16,825.3	37.26%	14,249.5
Share capital (million shares) Note	**2,866.7**	1,831.3	56.54%	1,343.3

Note: The total share capital of the Company was increased from 1,831,336,215 shares to 2,866,731,684 shares as a result of the placing and new issue of H shares by the Company, the exercise of "ZXC1" Warrants and the implementation of the 2009 profit distribution and capitalisation of capital reserve plans during the reporting period. For details, please refer to the section headed "Changes in Share Capital and Information of Shareholders" in this report.

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

Item	**For the year ended 31 December 2010**	For the year ended 31 December 2009	Year-on-year change	For the year ended 31 December 2008
Basic earnings per share (RMB/share) Note 1	**1.17**	0.93	25.81%	0.63
Diluted earnings per share (RMB/share) Note 2	**1.15**	0.90	27.78%	0.62
Basic earnings per share after extraordinary items (RMB/share)	**0.99**	0.89	11.24%	0.59
Fully diluted return on net assets (%)	**14.07**	14.61	Decrease by 0.54 percentage points	11.65
Weighted average return on net assets (%)	**15.32**	15.83	Decrease by 0.51 percentage points	12.36
Fully diluted return on net assets after extraordinary items (%)	**11.83**	13.90	Decrease by 2.07 percentage points	10.86
Weighted average return on net assets after extraordinary items (%)	**12.88**	15.06	Decrease by 2.18 percentage points	11.52
Net cash flow from operating activities per share (RMB/share) Note 3	**0.34**	1.42	(76.06%)	1.39

Accounting and Business Data Highlights

Item	As at 31 December 2010	As at 31 December 2009	Year-on-year change (%)	As at 31 December 2008
Net asset per share attributable to shareholders of the listed company (RMB/share) Note 3	**8.24**	6.37	29.36	5.44

Note 1: As a result of the implementation of the 2009 profit distribution and capitalisation of capital reserve plans, basic earnings per share for 2009 and 2008 were restated accordingly. Basic earnings per share for the period under review was calculated on the basis of the weighted average number of ordinary share capital, namely the total share capital at the end of the period after deduction of 62,407,186 restricted shares remaining in lock-up.

Note 2: As certain Subject Share quotas under the Phase I Share Incentive Scheme of the Company have given rise to 61,864,408, 69,737,523 and 46,753,747 potentially dilutive ordinary shares for the reporting period, 2009 and 2008, respectively, therefore diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factors, and the diluted earnings per share for 2009 and 2008 have been restated to reflect the implementation of the 2009 profit distribution and capitalisation of capital reserve plans of the Company.

Note 3: Net cash flow from operating activities per share and net asset per share attributable to shareholders of the listed company for 2010 were calculated on the basis of the number of shares representing the total share capital at the end of the period after deduction of 62,407,186 restricted shares remaining in lock-up under the share incentive plan. The corresponding amounts for 2009 and 2008 have been restated to reflect the implementation of the 2009 profit distribution and capitalisation of capital reserve plans of the Company.

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

Unit: RMB in millions

	Year ended 31 December				
Results	**2010**	2009	2008	2007	2006
Revenue	**70,263.9**	60,272.6	44,293.4	34,777.2	23,214.6
Cost of sales	**(48,599.0)**	(41,667.8)	(29,911.5)	(23,415.0)	(15,365.9)
Gross profit	**21,664.9**	18,604.8	14,381.9	11,362.2	7,848.7
Other income and revenue	**2,639.8**	1,723.5	1,295.7	1,028.0	724.7
Research and development	**(7,092.0)**	(5,781.6)	(3,994.1)	(3,210.4)	(2,832.7)
Selling and distribution costs	**(8,890.2)**	(7,157.8)	(5,401.0)	(4,531.5)	(3,274.7)
Administrative expenses	**(2,524.0)**	(2,735.2)	(2,190.0)	(1,718.2)	(1,097.6)
Other expenses	**(753.8)**	(603.2)	(1,159.7)	(898.2)	(191.5)
Profit from operating activities	**5,044.7**	4,050.5	2,932.8	2,031.9	1,176.9
Finance costs	**(728.6)**	(751.7)	(690.2)	(328.3)	(153.7)
Share of profit and loss of jointly controlled entities and associates	**44.1**	26.0	19.9	24.1	7.5
Profit before tax	**4,360.2**	3,324.8	2,262.5	1,727.7	1,030.7
Tax	**(883.7)**	(629.1)	(350.6)	(276.2)	(127.1)
Profit before minority interests	**3,476.5**	2,695.7	1,911.9	1,451.5	903.6
Attributable to:					
Minority interests	**(226.3)**	(237.6)	(251.7)	(199.3)	(136.6)
Attributable to:					
Shareholders of parent company	**3,250.2**	2,458.1	1,660.2	1,252.2	767.0

Unit: RMB in millions

Assets and liabilities	As at 31 December 2010	2009	2008	2007	2006
Total assets	**85,509.2**	69,464.9	52,228.8	41,034.4	26,787.2
Total liabilities	**60,547.2**	51,516.0	37,045.3	28,146.0	15,461.4
Minority interests	**1,868.1**	1,123.6	934.0	751.2	561.9
Shareholders' equity attributable to the parent company	**23,093.9**	16,825.3	14,249.5	12,137.2	10,763.9

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

Item	2010	2009	2008	2007	2006
Basic earnings per share (RMB/share) Note 1	**1.17**	0.93	0.63	0.48	0.29
Net asset per share (RMB/share) Note 2	**8.24**	6.37	5.44	4.63	4.11
Fully diluted return on net assets	**14.07%**	14.61%	11.65%	10.32%	7.13%

Note 1: As a result of the implementation of the 2009 profit distribution and capitalisation of capital reserve plans, basic earnings per share for previous years were restated accordingly. Basic earnings per share for the period under review was calculated on the basis of the number of shares representing the total share capital at the end of the period after deduction of 62,407,186 restricted shares remaining in lock-up.

Note 2: Net asset per share attributable to shareholders of the listed company for 2010 were calculated on the basis of the number of shares representing the total share capital at the end of the period after deduction of 62,407,186 restricted shares remaining in lock-up under the share incentive plan. The corresponding amounts for previous years have been restated to reflect the implementation of the 2009 profit distribution and capitalisation of capital reserve plans of the Company.

(V) THE AMOUNTS OF NET PROFIT AND NET ASSETS OF THE GROUP FOR THE YEAR ENDED AND AS AT 31 DECEMBER 2010 CALCULATED IN ACCORDANCE WITH PRC ASBES ARE ENTIRELY CONSISTENT WITH THOSE CALCULATED UNDER HKFRSS.

Changes in Share Capital and Information of Shareholders

(I) CHANGES IN SHARE CAPITAL OF THE COMPANY DURING THE YEAR

Unit: shares

	Prior to the change		Increase/decrease as a result of the change (+, –)					After the change	
	Number of shares	Percentage	New issue Note 1, Note 2	Bonus issue	Transfer from capital reserve Note 3	Others Note 4	Sub-total	Number of shares	Percentage
I. Shares subject to lock-up	**72,459,458**	**3.96%**	**–**	**–**	**23,170,254**	**-28,711,240**	**-5,540,986**	**66,918,472**	**2.34%**
1. State-owned shares	–	–	–	–	–	–	–	–	–
2. State-owned corporate shares	–	–	–	–	–	–	–	–	–
3. Other domestic shares	66,899,197	3.65%	–	–	20,873,387	-27,630,873	-6,757,486	60,141,711	2.10%
Comprising: domestic non-state-owned corporate shares	–	–	–	–	–	–	–	–	–
Domestic natural person shares	66,899,197	3.65%	–	–	20,873,387	-27,630,873	-6,757,486	60,141,711	2.10%
4. Foreign shares	–	–	–	–	–	–	–	–	–
Comprising: foreign corporate shares	–	–	–	–	–	–	–	–	–
Foreign natural person shares	–	–	–	–	–	–	–	–	–
5. Senior management shares	5,560,261	0.31%	–	–	2,296,867	–1,080,367	1,216,500	6,776,761	0.24%
II. Shares not subject to lock-up	**1,758,876,757**	**96.04%**	**79,818,241**	**–**	**932,406,974**	**28,711,240**	**1,040,936,455**	**2,799,813,212**	**97.66%**
1. RMB ordinary shares	1,467,401,865	80.12%	21,523,441	–	757,522,128	28,711,240	807,756,809	2,275,158,674	79.36%
2. Domestic-listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas-listed foreign shares (H shares)	291,474,892	15.92%	58,294,800	–	174,884,846	–	233,179,646	524,654,538	18.30%
4. Others	–	–	–	–	–	–	–	–	–
III. Total number of shares	**1,831,336,215**	**100%**	**79,818,241**	**–**	**955,577,228**	**–**	**1,035,395,469**	**2,866,731,684**	**100.00%**

Note 1: On 21 January 2010, the Company completed the placing of its new H shares under the general mandate, pursuant to which 58,294,800 H shares were issued and listed.

Note 2: The "中興 ZXC1" Warrants were exercised during the period from 1 February 2010 to 12 February 2010. After the close of the exercise, the share capital of the Company was increased by 21,523,441 RMB ordinary shares.

Note 3: On 24 June 2010, the Company implemented the plan of capitalisation of the capital reserve (creation of 5 shares for every 10 shares based on a total share capital of 1,911,154,456 shares after the completion of the new H share placing on 21 January 2010 and the exercise of the "中興 ZXC1" Warrants on 12 February 2010). Please refer to the "Indicative Announcement of ZTE Corporation on Equity Distribution for 2009" published by the Company on 22 June 2010.

Note 4: (1) The unlocking of a total of 26,452,094 shares in the Second Unlocking of Subject Shares under the First Award of the Phase I Share Incentive Scheme of the Company was completed on 4 June 2010. For details, please refer to the "Announcement of the Completion of the Second Unlocking of Subject Shares under the First Award of the Phase I Share Incentive Scheme of ZTE Corporation" published by the Company on 3 June 2010. (2) The unlocking of total of 2,520,957 shares in the First Unlocking of Subject Shares under the Second Award of the Phase I Share Incentive Scheme of the Company was completed on 15 December 2010. For details, please refer to the "Announcement of the Completion of the First Unlocking of Subject Shares under the Second Award of the Phase I Share Incentive Scheme of ZTE Corporation" published by the Company on 13 December 2010. (3) In accordance with relevant domestic regulations, shares held by departed or newly appointed Directors, Supervisors or senior management shall be under lock-up.

(II) TABLE OF CHANGES IN SHARES SUBJECT TO LOCK-UP

Unit: shares

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[Note 3]	Number of shares subject to lock-up at the end of the year	Reasons for lock-up	Date of unlocking
Hou Weigui	494,779	—	247,390	742,169	Restricted senior management shares	Note 1
Chen Jie	320,742	45,500	137,621	412,863	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Yin Yimin	263,680	—	131,840	395,520	Restricted senior management shares	Note 1
Ni Qin	309,117	45,500	131,808	395,425	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Xu Huijun	342,225	81,900	130,163	390,488	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Zhao Xianming	342,225	81,900	130,162	390,487	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Zeng Xuezhong	302,250	68,250	117,000	351,000	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Wu Zengqi	292,500	68,250	112,125	336,375	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Pang Shengqing	287,918	68,250	109,834	329,502	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Fan Qingfeng	292,500	73,125	109,687	329,062	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Others	69,211,522	28,188,629	21,822,688	62,845,581	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Total	**72,459,458**	**28,721,304**	**23,180,318**	**66,918,472**	—	—

Note 1: In accordance with relevant domestic regulations, up to 25% of the shares held may be disposed of by the Directors, Supervisors and senior management through the stock exchange each year.

Note 2: Unlocked in accordance with the Phase I Share Incentive Scheme (Revised Version dated 5 February 2007) of ZTE Corporation.

Note 3: The increase in the number of restricted shares was attributable to the implementation of the 2009 profit distribution and capitalization of capital reserve plans during the reporting period and the lock-up of shares held by departed or newly appointed Directors, Supervisors or senior management in accordance with relevant domestic regulations.

Changes in Share Capital and Information of Shareholders

(III) ISSUE AND LISTING OF SECURITIES

1. The issue of bonds cum warrants of the Company was completed on 22 February 2008, the details of which are set out in the section headed XII (VIII) "Updates on the Bonds Cum Warrants Issued by the Company" in this report;

2. Registration of a total of 85,050,238 A shares granted to 4,022 Scheme Participants under the Phase I Share Incentive Scheme of the Company with China Securities Depository and Clearing Company Limited, Shenzhen Branch had been completed. The unlocking of Subjects Shares under the First Unlocking of the Phase I Share Incentive Scheme of the Company was completed on 22 July 2009. The total share capital of the Company has increased by 85,006,813 shares, after deducting 43,425 Subject Shares which have not been unlocked and have lapsed.

3. On 21 January 2010, the Company completed the placing of 58,294,800 H shares for listing pursuant to the general mandate at a placing price of HK$45.0 per share, raising net proceeds of approximately HK$2,596 million. For details, please refer to the "Announcement of the Completion of the Placing of New H Shares" published by the Company on 21 January 2010.

4. As at the close of trading on 12 February 2010, a total of 23,348,590 "ZXC1" Warrants had been exercised at an exercise ratio of 1: 0.922 and an adjusted exercise price of RMB42.394 per share on an ex-rights and ex-dividend basis to subscribe for 21,523,441 A shares, raising proceeds of approximately RMB912 million. For details, please refer to the "Announcement of the results of the exercise of the "ZXC1" Warrants and changes in shareholdings" published by the Company on 23 February 2010.

5. The Company's proposals of the 2009 profit distribution and capitalisation of capital reserve plans were implemented on 24 June 2010 and the total share capital of the Company was increased from 1,911,154,456 shares to 2,866,731,684 shares as a result.

6 The Company had no employees' shares.

(IV) SHAREHOLDERS AND DE FACTO CONTROLLERS OF THE COMPANY

1. Top ten shareholders of the Company and top ten holders of shares not subject to lock-up as at 31 December 2010

Unit: shares

Total number of shareholders 99,640 shareholders (of which 99,276 were holders of A shares and 364 were holders of H shares)

Name of shareholders		Nature of shareholders	Percentage of shareholdings (%)	Total number of shares held (shares)	Number of shares held subject to lock-up (shares)	Number of shares pledged or frozen
Shareholdings of top ten shareholders						
1.	Zhongxingxin	State-owned shareholders	32.45%	930,321,620	0	Nil
2.	HKSCC Nominees Limited	Foreign shareholders	18.27%	523,682,174	0	Unknown
3.	China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	Others	1.28%	36,607,277	0	Unknown
4.	Guangfa Jufeng Stock Fund	Others	1.18%	33,966,040	0	Unknown
5.	China Post Core Growth Stock Securities Investment Fund	Others	1.12%	32,187,415	0	Unknown
6.	Hunan Nantian (Group) Co., Ltd	Others	1.09%	31,208,841	0	Unknown
7.	China Life Insurance Company Limited — Traditional — General Insurance Products — 005L — CT001 Shen	Others	0.83%	23,734,406	0	Unknown
8.	Industrial Global View Securities Investment Fund	Others	0.75%	21,500,000	0	Unknown
9.	E Fund Selected Value Stock Securities Investment Fund	Others	0.73%	20,999,909	0	Unknown
10.	E Fund SZSE 100 ETF	Others	0.68%	19,542,503	0	Unknown

Changes in Share Capital and Information of Shareholders

Shareholdings of top ten holders of shares not subject to lock-up Name of shareholders	Number of shares held not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	930,321,620	A shares
2. HKSCC Nominees Limited	523,682,174	H shares
3. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	36,607,277	A shares
4. Guangfa Jufeng Stock Fund	33,966,040	A shares
5. China Post Core Growth Stock Securities Investment Fund	32,187,415	A shares
6. Hunan Nantian (Group) Co., Ltd	31,208,841	A shares
7. China Life Insurance Company Limited — Traditional — General Insurance Products — 005L — CT001 Shen	23,734,406	A shares
8. Industrial Global View Securities Investment Fund	21,500,000	A shares
9. E Fund Selected Value Stock Securities Investment Fund	20,999,909	A shares
10. E Fund SZSE 100 ETF	19,542,503	A shares

Descriptions of any connected party relationships or concerted party relationships among the above shareholders

1. Among the top ten shareholders of the Company, The 3rd and the 7th ranking shareholders, namely China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen and China Life Insurance Company Limited — Traditional — General Insurance Products — 005L — CT001 Shen, were managed by the same fund manager- China Life Insurance Company Limited; The 9th and 10th ranking shareholders, namely E Fund Selected Value Stock Securities Investment Fund and E Fund SZSE 100 ETF, were managed by the same fund manager - E Fund Management Company Limited.
2. There were no connected party relationships or concerted party relationships between Zhongxingxin and the rest of the top ten shareholders listed above.
3. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the rest of the top ten shareholders and the rest of the top ten shareholders not subject to lock-up.

	Name of shareholder	Designated 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 (shares)	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	620,214,413	310,107,207	Note	930,321,620

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 2009 profit distribution and capitalisation of capital reserve plans of the Company. For details, please refer to the “Announcement on Equity Distribution for 2009” published in newspapers and websites designated for information disclosure on 18 June 2010.

3. Controlling shareholders of the Company

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

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

The controlling shareholder of the Company, Zhongxingxin was jointly formed by Xi'an Microelectronics, Shenzhen Aerospace Guangyu Industrial (Group) Company Limited ("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. Therefore, the Company does not have any de facto controller and no party has effective control over the Company, whether by way of trust or other asset management. Details of these three shareholders are as follows:

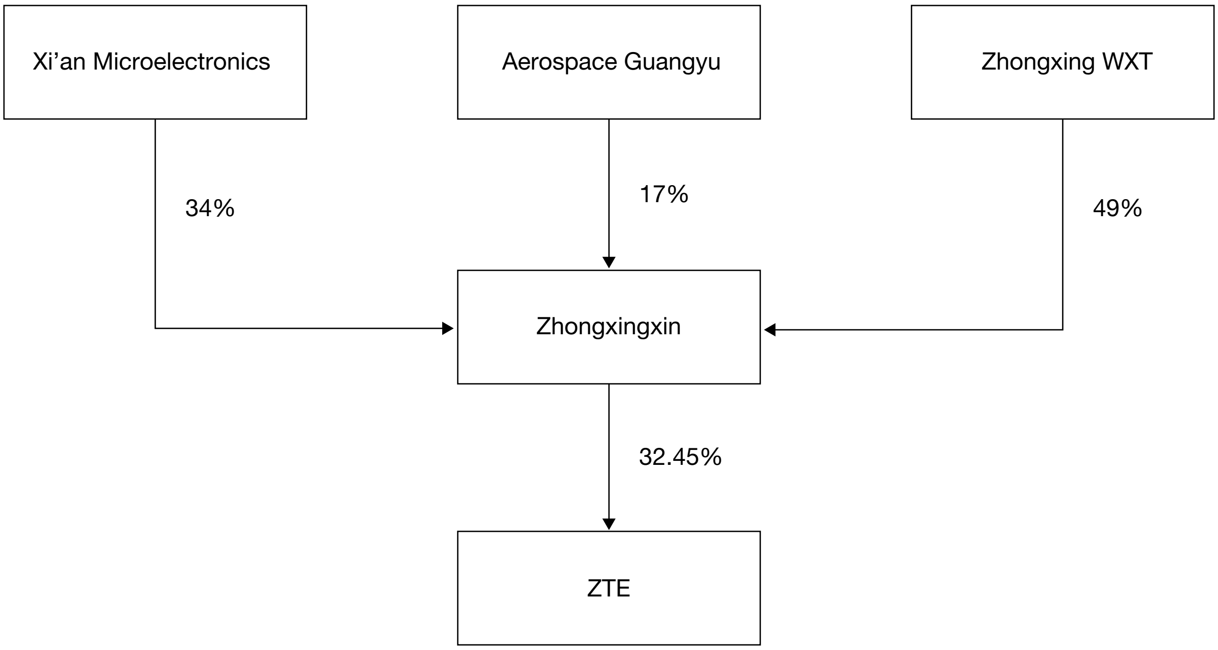
Xi'an Microelectronics, a subsidiary of China Aerospace Electronics Technology Research Institute, is a large state-owned research institute, which was established in 1965 with a start-up capital of RMB198,530,000. The legal representative of the institute is Zhang Junchao. It is the only specialized 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), raw materials for textile, raw materials for chemical fibre, apparel, textile and warehousing. (Import and export operations are conducted in accordance with relevant regulations). Import and export operations (which are conducted in accordance with Shen Mao Jin [2000] No. 50 Qualifications Certificate).

Changes in Share Capital and Information of Shareholders

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

The following diagram shows the shareholding and controlling relationships between the Company and its shareholders as at 31 December 2010:



5. Interests of substantial shareholders and other persons in shares and underlying shares

As at 31 December 2010, 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	Beneficial owner	930,321,620 A shares (L)	32.45	39.72
Zhongxing WXT	Interest of controlled corporation	930,321,620 A shares (L)	32.45	39.72
Xi'an Microelectronics	Interest of controlled corporation	930,321,620 A shares (L)	32.45	39.72
China Aerospace Electronics Technology Research Institute (formerly known as China Aerospace Times Electronics Corporation)	Interest of controlled corporation	930,321,620 A shares (L)	32.45	39.72
CASC	Interest of controlled corporation	930,321,620 A shares (L)	32.45	39.72
JPMorgan Chase & Co.	Beneficial owner, investment manager and Approved lending agent	68,450,315 H shares (L)	2.39	13.05
	Beneficial owner	4,034,718 H shares (S)	0.14	0.77
	Approved lending agent	40,804,888 H shares (P)	1.42	7.78
Aranda Investments (Mauritius) Pte Ltd	Interest of controlled corporation	11,141,800 H shares (L)	1.16 Note	6.96 Note
AllianceBernstein L.P. (formerly "Alliance Capital Management L.P.")	Investment manager and interest of controlled corporation	30,893,699 H shares (L)	1.08	5.88
Massachusetts Financial Services Company ("MFS")	Investment manager	8,428,100 H shares (L)	0.88 Note	5.26 Note
Sun Life Financial, Inc.	Interest of controlled corporation	8,428,100 H shares (L)	0.88 Note	5.26 Note

(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 of capital reserve.

Save as disclosed above, as at 31 December 2010, 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 the latest practicable date prior to the publication of the Annual Report.

Directors, Supervisors, Senior Management and Employees

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

1. Biography of Directors

Mr. Hou Weigui, 69, 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 Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited. He had been a Director and the President of the Company responsible for the overall daily operational management since the listing of the Company on Shenzhen Stock Exchange in 1997 until February 2004. He has been the Chairman of the Company since February 2004 and is concurrently the Chairman of Shenzhen Zhongxing WXT Equipment Company, Ltd. Mr. Hou has extensive experience in the telecommunications business with over 41 years' experience in management and business operations.

Mr. Wang Zongyin, 66, was a Vice Chairman and a Non-executive Director of the Company from February 2004 to March 2010. Mr. Wang graduated from the Faculty of Mechanical Engineering, Beijing Institute of Technology in 1968, specialising in rocket design. Mr. Wang served as the party committee secretary 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 vice chairman of Long March Launch Vehicle Technology Co., Ltd. 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. Lei Fanpei, 48, is a Vice Chairman and a Non-executive Director of the Company. Mr. Lei graduated from Northwestern Polytechnical University in 1987 majoring in solid rocket engine. He holds a doctorate degree in engineering and the title of research fellow. He worked at the Ministry of Aerospace Industry from 1987 to 2002 and became the head of the Sixth Research Institute of China Aerospace Corporation ("CASC") in April 2002. He has been deputy general manager of CASC since 2005. Mr. Lei has substantial experience in management and business operations.

Mr. Xie Weiliang, 55, 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 Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited, controlling shareholder of the Company. Mr. Xie has substantial experience in management and business operations.

Mr. Wang Zhanchen, 58, is a Non-executive Director of the Company. Mr. Wang graduated from Xi'an Artillery Engineering Institute in 1976. He has served as party committee secretary and factory manager of Beijing Xinghua Machinery Factory of China Academy of Launch Vehicle Technology (CALT). He has been party committee secretary of China Aerospace Times Electronics Corporation since February 2003, vice chairman of China Aerospace Times Electronics Co., Ltd. since June 2008 and party committee secretary of China Aerospace Electronic Technology Institute since March 2009. Mr. Wang has substantial experience in management and business operations.

Mr. Zhang Junchao, 57, is a Non-executive Director of the Company. Mr. Zhang graduated from the Faculty of Electronic and Wireless Engineering, Xi'an Jiaotong University in 1977 and holds the title of researcher. He served as the party committee secretary and deputy head of the CASC Foundational Electronic Technology Institute from 2000 to March 2003, deputy party committee secretary of China Aerospace Times Electronics Corporation from March 2003 to February 2009 and head of its Shaanxi Management Division and head of Xi'an Microelectronics Technology Institute from May 2003 to the present. From March 2009 to September 2010, he was the deputy head of China Aerospace Electronic Technology Institute under CASC. He has been deputy head of China Aerospace Electronic Technology Institute since September 2010 and a Non-executive Director of the Company since February 2004. He is concurrently vice chairman of Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited, controlling shareholder of the Company. Mr. Zhang has substantial experience in management and business operations.

Mr. Li Juping, 55, was a Non-executive Director of the Company from April 1999 to March 2010. Mr. Li graduated from the Department of Technical Physics, Northwest Institute of Telecommunications Engineering (now known as Xi'an University of Electronic Technology) 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 (now known as China Aerospace Electronic Technology Institute) from 2003 to the present. Mr. Li has substantial experience in management and business operations.

Mr. Dong Lianbo, 54, is a Non-executive Director of the Company. Mr. Dong graduated from Northeastern University majoring in Business Administration in 2001, and holds the titles of researcher-grade senior engineer. He served as the director and deputy general manager of Shenyang Aerospace Xinguang Group from 2001 to 2002, deputy team head of the Shenzhen Business Integration Working Group of CASIC from 2002 to 2003, deputy general manager of Aerospace Technology Shenzhen (Group) Co., Ltd. since 2003, and party committee secretary of Aerospace Technology Shenzhen (Group) Co., Ltd. since 2008. He has been a Non-executive Director of the Company since February 2004. He is concurrently director of Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited, controlling shareholder of the Company. Mr. Dong has substantial experience in management and business operations.

Mr. Shi Lirong, 47, is an Executive Director and President of the Company. Mr. Shi was the Executive Vice President of the Company from 1999 to March 2010. Mr. Shi is a senior engineer. He graduated from Tsinghua University in 1984 majoring in wireless and information technology and Shanghai Jiaotong University in 1989 with a master of science degree in engineering, specializing in telecommunications and electronic engineering. Mr. Shi served as an engineer and head of the production department in Shenzhen Zhongxing Semiconductor Co., Ltd. from 1989 to 1993. From 1993 to 1997, he was the deputy general manager of Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited. He was in charge of the Company's overall marketing operations from 1997 to 2007 and, since 2007, the Company's global sales. He has been an Executive Director of the Company since February 2001. He is concurrently director of Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited, controlling shareholder of the Company. He has many years of experience in the telecommunications industry and over 20 years of management experience.

Mr. Yin Yimin, 47, is an Executive Director of the Company. Mr. Yin is a senior engineer. He graduated from the Nanjing Institute of Posts and Telecommunications (now known as Nanjing University of Posts and Telecommunications) in 1988 with a Master of Science degree in engineering, majoring in telecommunications and electronic systems. Mr. Yin had served as a manager of the research and development department of Shenzhen Zhongxing Semiconductor Co., Ltd. since 1991, and as deputy general manager of Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited between 1993 and 1997. During the periods from 1997 to March 2010, he served as the Company's vice president, senior vice president and President, 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 operation of telecommunications business and over 20 years of management experience.

Directors, Supervisors, Senior Management and Employees

Mr. He Shiyou, 44, is an Executive Director of the Company. Mr. He has been the Executive Vice President of the Company since 1999. He currently oversees operations of the Handset Department of the Company. Mr. He is a senior engineer. He graduated from Beijing University of Posts and Telecommunications in 1990 with a Master of Science degree in engineering, specializing in electromagnetic field and microwave technology. Mr. He joined Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited 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 served as a Senior Vice President of the Company, and has been responsible for the Second Sales Division and the Handset Department of the Company. He has been an Executive Director of the Company since February 2001. He has many years of experience in the telecommunications industry as well as over 18 years of management experience.

Mr. Mi Zhengkun, 65, was an Independent Non-executive Director of the Company from February 2004 to March 2010. 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.

Mr. Li Jin, 43, was an Independent Non-executive Director of the Company from June 2004 to June 2010. Mr. Li graduated from Peking University in China in 1989, majoring in bio-chemistry and received his juris doctor degree from the Law School of Columbia University 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. Mr. Li is an independent director of Dragon Pharmaceutical Inc., a Canadian company listed on NASDAQ.

Ms. Qu Xiaohui, 56, is an Independent Non-executive Director of the Company. She is the first female PhD in accounting and female tutor for doctorate candidates in accounting in China and the promoter of the project hypothesis procedure for the creation of a professional master's degree in accounting (MPAcc) in China. She is currently the head of the center for accounting studies at Xiamen University (a key research base for arts disciplines designated by the Ministry of Education), head of Financial Management and Accounting Research Institute of Xiamen University (a "National 985" Innovative Base for Philosophy and Social Science), and an accounting professor. Ms. Qu graduated from Xiamen University in July 1989 with a doctorate degree in Economics (Accounting). Since August 1989, she has been engaged in teaching and academic research at the Department of Accounting of Xiamen University. She has been an Independent Non-executive Director of the Company since July 2009. Ms. Qu is concurrently an independent director of Yunnan Baiyao Group Co., Ltd., a company listed on the Shenzhen Stock Exchange.

Mr. Wei Wei, 45, is an Independent Non-executive Director of the Company. He has been the associate dean of HSBC Business School of Peking University and the head of the Research Centre of Doers' Group Business Model of HSBC Business School of Peking University since October 2007. Mr. Wei graduated from Huazhong University of Science and Technology in 2004 with a doctorate degree in management science and engineering. He worked in Xinjiang Technology College and Xinjiang University. He was a post-doctorate fellow at Chinese Economic Research Centre at the Peking University from July 2004 to June 2006 and an assistant to the Dean of Shenzhen School of Business of Peking University from July 2006 to September 2007. He has been an Independent Director of the Company since July 2009. Mr. Wei served as an independent director of Xinjiang Tiankang Animal Science Bio-technology Co., Ltd. (a company listed on Shenzhen Stock Exchange) from October 2001 to October 2008, an independent director of Xinjiang International Industry Co., Ltd. (a company listed on Shenzhen Stock Exchange) from October 2003 to June 2008 and is currently an independent director of Changyuan Group Company Limited (a company listed on Shanghai Stock Exchange) and of Dalian Zhangzidao Fishery Group Company Limited (a company listed on Shenzhen Stock Exchange).

Mr. Chen Naiwei, 53, is an Independent Non-executive Director of the Company. He has been a partner of Shanghai Allbright Law Offices since 2001, a senior lawyer and a law professor. Mr. Chen graduated from the Graduate School of Macau University of Science and Technology in 2007 with a doctorate degree in Law. He served as the head of the Law Faculty and head of the Intellectual Property Research Centre of Shanghai Jiaotong University. He has been an Independent Non-executive Director of the Company since July 2009.

Mr. Tan Zhenhui, 66, is an Independent Non-executive Director of the Company. Professor Tan is currently the Chairman of the Academic Committee and a professor of Beijing Jiaotong University, where he has been working since August 1982 and served as faculty dean, vice chancellor and chancellor. He graduated from Southeast University in 1987 with a doctorate degree in engineering, specialising in telecommunications and electronic systems.

Mr. Timothy Alexander Steinert (石義德), 51, is an Independent Non-executive Director of the Company. Mr. Steinert is a United States national with Hong Kong permanent resident status. He has been the general counsel of Alibaba Group Holding Limited since July 2007. Mr. Steinert obtained a bachelor's degree from Yale University in 1983 and a juris doctor degree from Columbia University in 1989. From 1999 to 2007, he was a partner in the corporate department of Freshfields Bruckhaus Deringer (Hong Kong). Mr. Steinert is a qualified lawyer in both Hong Kong and New York, the United States.

2. Secretary to the Board of Directors/Company Secretary

Mr. Feng Jianxiong, 37, is the Secretary to the Board of Directors and Company Secretary of the Company. Mr. Feng graduated from Tianjin University of Finance and Economics with a bachelor degree in economics, majoring in international finance. He joined Zhongxingxin in July 1996, and has been the Secretary to the Board of Directors since 2000, with spells as heads of the Investment Division, the Securities and Finance Division and the Securities and Investor Relations Division of the Company during the period. Mr. Feng has many years of experience in the telecommunications industry, including over 11 years in managerial positions.

Directors, Supervisors, Senior Management and Employees

3. Biography of Supervisors

Mr. Zhang Taifeng, 69, 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 and from February 2004 to the present the Chairman of the Supervisory Committee of the Company.

Mr. Wang Wangxi, 44, was a supervisor of the Company from February 2004 to March 2010, 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, 40, 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. Zhao Xinyu, 32, was a supervisor of the Company from March 2010 to June 2010. Mr. Zhao graduated from Renmin University of China (People's University of China) in July 2001 with a bachelor's degree in human resources management, followed by a master's degree in human resources management from the Business School of Cardiff University in the United Kingdom in November 2004. He worked with Shenzhen Telecom from July 2001 to September 2003, before joining the Company in November 2004.

Mr. Zhou Huidong, 35, is a supervisor of the Company and currently Head of the Financial Control Division under the Financial Department of the Company. He joined the Company in July 1998 upon graduation from Peking University with a bachelor's degree majoring in finance and accounting. Mr. Zhou is a certified public accountant and a certified tax agent.

Mr. Qu Deqian, 49, was a supervisor of the Company from May 2005 to March 2010. Mr. Qu graduated from the Shaanxi Economics Institute with an 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 and Deputy Chief of the Financial Centre of the Company. He has been the deputy general manager of Zhongxing WXT since 2003.

Ms. Wang Yan, 46, 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 Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited, controlling shareholder of the Company, in 1999 and had been deputy general manager and chief accountant of Zhongxingxin. She has been a supervisor of the Company since June 2005.

Ms. Xu Weiyan, 48, is a supervisor of the Company and is currently serving at the Logistics Department of the Company. Ms. Xu graduated from the Department of History of Liaoning Normal University in July 1988 with a bachelor's degree in History and was qualified as an economist in 1992. From 1989 to 1993, she worked with Shenzhen Zhongxing Semiconductor Co., Ltd. From 1993 to 1997, she worked with Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited, holding various positions such as secretary to the company's finance committee and deputy head of the president's office. She joined the Company in 1997 and was head of the Tender Department.

4. Biography of Senior Management

Mr. Shi Lirong, President of the Company. Please refer to his biography under "Biography of Directors" in this section.

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

Mr. Wei Zaisheng, 48, has been an Executive Vice President of the Company since 1999 and is currently in charge of the Financial Department of the Company. Mr. Wei obtained a master's degree in business administration from Peking University 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 Department of the Company. He has been appointed a member of China Accounting Informatisation Committee and a member of XBRL Regional Steering Committee (China) by the Ministry of Finance since November 2008. He is concurrently a director of Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited, controlling shareholder of the Company. Mr. Wei has many years of experience in the telecommunications industry, including over 22 years in managerial positions.

Mr. Xie Daxiong, 47, has been an Executive Vice President of the Company since 2004 and is currently in charge of the Product Research and Development Department 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 a recipient of the first Shenzhen Mayor Award. Mr. Xie has many years of experience in the telecommunications industry, including over 14 years in managerial positions.

Mr. Tian Wenguo, 42, has been an Executive Vice President of the Company since 2005 and is currently in charge of the Logistics Department 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. In 2006, he graduated from Tsinghua University with a master's degree in business administration. In 2006, Mr. Tian graduated from Tsinghua University with a master's degree in Business Administration. 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 Department, Marketing Department and Product Marking Department of the Company. Mr. Tian has many years of experience in the telecommunications industry, including over 13 years in managerial positions.

Directors, Supervisors, Senior Management and Employees

Mr. Qiu Weizhao, 47, was a Senior Vice President of the Company from 1998 to 2006. He has been an Executive Vice President of the Company since 2007 and is currently in charge of 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 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 has many years of experience in the telecommunications industry, including over 22 years in managerial positions.

Mr. Fan Qingfeng, 42, has been an Executive Vice President of the Company since March 2008 and is currently in charge of the Sales Department. 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. From March 2008 to March 2010, he was Executive Vice President of the Company in charge of the Logistics Department. He has many years of experience in the telecommunications industry, including over 12 years in managerial positions.

Ms. Chen Jie, 52, has been a Senior Vice President of the Company since 2002 and is currently in charge of the Wireline and Business Products Division under the Marketing Department. Ms. Chen graduated from Nanjing Institute of Posts and Telecommunications (now known as "Nanjing University 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 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 15 years in managerial positions.

Mr. Zhao Xianming, 44, has been a Senior Vice President of the Company since 2004 and is currently in charge of the Wireless Business Division under the Research and Development Department. 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 business under the Research and Development Department. Mr. Zhao has many years of experience in the telecommunications industry, including over 19 years in managerial positions.

Mr. Pang Shengqing, 42, has been a Senior Vice President of the Company since 2005 and is currently in charge of the First Sales Division of the Company. 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 1998 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 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 12 years in managerial positions.

Mr. Zeng Xuezhong, 37, has been a Senior Vice President of the Company since 2006 and is currently in charge of the Third Sales Division. Mr. Zeng graduated from Tsinghua University with a bachelor of science degree in engineering in modern applied science in 1996 and with an EMBA degree in 2007. Mr. Zeng joined Zhongxingxin in 1996. From 1997 to July 2006, Mr. Zeng was ZTE Corporation'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 11 years in managerial positions.

Mr. Xu Huijun, 37, has been a Senior Vice President of the Company since 2004 and is currently in charge of the Engineering Services Division of the Sales Department. 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 and the head of Beijing Research Centre from 1998 to 2003. Since 2004, he has been Senior 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 engineering services of the Sales Department. Mr. Xu has many years of experience in the telecommunications industry, including over 12 years in managerial positions.

Mr. Ye Weimin, 44, has been a Senior Vice President of the Company since 2001 and is currently in charge of operations of the Company's Logistics Department at ZTE Kangxun. 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 research and development as well as engineering work 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 quality control of the Mobile Operations Division and the Customer Services Division and deputy general manager of the Third Sales Division. From 2001 to 2007, he has been Senior Vice President of the Company in charge of the Mobile Operations Division and the Fifth Sales Division. Since 2008, he has been in charge of operations of the Company's Logistics Department at ZTE Kangxun. Mr. Ye has many years of experience in the telecommunications industry, including over 17 years in intermediate to senior management.

Mr. Ni Qin, 51, has been a Senior Vice President of the Company since 1998 and is currently in charge of process optimisation and IT application. 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. He is currently in charge of the management of research and development in the application of Cloud Computing. Mr. Ni has many years of experience in the telecommunications industry, including over 16 years in managerial positions.

Directors, Supervisors, Senior Management and Employees

Mr. Wu Zengqi, 46, has been a Senior Vice President of the Company since 2007 and is currently in charge of the Fifth Sales Division. Mr. Wu graduated from Fudan University in 1990 with a Master's degree in economics, specialising in global economics. He joined the Company in 1999 and had been the chief representative of the Libyan Office of the First Sales Division, general manager of North Africa region of the Fifth Sales Division and general manager of the Second Sales Division from 1999 to 2008. Since 2009, he has been general manager of the Fifth Sales Division of the Company. Mr. Wu has many years of experience in the telecommunications industry, including over 11 years in managerial positions.

Mr. Zhu Jinyun, 39, has been a Senior Vice President of the Company since 2009 and is currently in charge of the Fourth Sales Division. Mr. Zhu graduated from Harbin Engineering University in 1998 with a master's degree in engineering specialising in communications and electronic systems. He joined the Company in the same year to engage in the research and development and management of CDMA products. From 2000 to 2008, Mr. Zhu had been head of the CDMA Hardware Development Division, general project manager for various products under the CDMA Division and general project manager for WCDMA products. Since 2009, he has been general manager of the Fourth Sales Division of the Company. Mr. Zhu has many years of experience in the telecommunications industry, including over 11 years in managerial positions.

Mr. Zhang Renjun, 42, has been a Senior Vice President of the Company since 2009 and is currently in charge of the Second Sales Division. Mr. Zhang graduated from Northeastern University in 1990 with a bachelor's degree in engineering, specialising in automated controls. Mr. Zhang joined Shenzhen Zhongxing Semiconductor Co., Ltd in 1992. From 2000 to 2008, he had been deputy general manager of the First Sales Division, deputy general manager of the Fourth Sales Division, head of the MTO Division and director of the PMO Division, both under the Sales Department. Mr. Zhang has many years of experience in the telecommunications industry, including over 11 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 for his biographical details.

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

Name	Title	Gender	Age	Term of office commencing on	Term of office ending on	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Reason for change	Total remuneration received from the Company during the reporting period (RMB10,000) (before tax)	Shares granted under the Share Incentive Scheme (restricted A shares)				Whether remuneration is received from shareholder entities or other connected entities
										Number of restricted shares granted (share)	Number of restricted shares granted during the period (shares)	Grant price of restricted shares (cum-right basis) (RMB)	Number of restricted shares held at the end of the reporting period	
Hou Weigui	Chairman	Male	69	3/2010	3/2013	659,706	989,560	Note 1	129.4	0	0	30.05	0	No
Wang Zongyin [Note 3]	Vice Chairman	Male	66	3/2007	3/2010	18,200	27,300	Note 1	1.7	27,300	0	30.05	12,285	Yes
Lei Fanpei	Vice Chairman	Male	48	3/2010	3/2013	0	0	–	7.5	0	0	30.05	0	Yes
Xie Weiliang	Vice Chairman	Male	55	3/2010	3/2013	18,200	27,300	Note 1	10.0	27,300	0	30.05	12,285	Yes
Wang Zhanchen	Director	Male	58	3/2010	3/2013	0	0	–	8.3	0	0	30.05	0	Yes
Zhang Junchao	Director	Male	57	3/2010	3/2013	18,200	27,300	Note 1	10.0	27,300	0	30.05	12,285	Yes
Li Juping [Note 3]	Director	Male	55	3/2007	3/2010	18,200	27,300	Note 1	1.7	27,300	0	30.05	12,285	Yes
Dong Lianbo	Director	Male	54	3/2010	3/2013	18,200	27,300	Note 1	10.0	27,300	0	30.05	12,285	Yes
Shi Lirong	Director and President	Male	47	3/2010	3/2013	200,283	300,425	Note 1	241.8	0	0	30.05	0	No
Yin Yimin	Executive Director	Male	47	3/2010	3/2013	351,574	527,361	Note 1	92.9	0	0	30.05	0	No
He Shiyou	Director and Executive Vice President	Male	44	3/2010	3/2013	191,633	287,450	Note 1	171.8	0	0	30.05	0	No
Mi Zhengkun [Note 3]	Independent Director	Male	65	3/2007	3/2010	0	5,000	Note 2	1.7	0	0	30.05	0	No
Li Jin [Note 3]	Independent Director	Male	43	3/2007	6/2010	0	0	–	4.4	0	0	30.05	0	No
Qu Xiaohui	Independent Director	Female	56	3/2010	3/2013	0	0	–	12.0	0	0	30.05	0	No
Wei Wei	Independent Director	Male	45	3/2010	3/2013	0	0	–	12.0	0	0	30.05	0	No
Chen Naiwei	Independent Director	Male	53	3/2010	3/2013	0	0	–	12.0	0	0	30.05	0	No
Tan Zhenhui	Independent Director	Male	66	3/2010	3/2013	0	0	–	10.3	0	0	30.05	0	No
Timothy Alexander Steinert	Independent Director	Male	51	6/2010	3/2013	0	0	–	7.6	0	0	30.05	0	No
Zhang Taifeng	Chairman of the Supervisory Committee	Male	69	3/2010	3/2013	221,458	332,187	Note 1	129.4	0	0	30.05	0	No
Wang Wangxi [Note 3]	Supervisor	Male	44	3/2007	3/2010	0	0	–	68.5	0	0	30.05	0	No
He Xuemei	Supervisor	Female	40	3/2010	3/2013	0	0	–	53.9	0	0	30.05	0	No
Zhao Xinyu [Note 4]	Supervisor	Male	32	3/2010	6/2010	21,258	31,887	Note 1 and 2	45.6	39,858	0	30.05	17,937	No
Zhou Huidong	Supervisor	Male	35	6/2010	3/2013	26,754	40,131	Note 1	59.0	40,131	0	30.05	18,058	No
Qu Deqian [Note 3]	Supervisor	Male	49	3/2007	3/2010	18,236	27,354	Note 1	0	0	0	30.05	0	Yes
Wang Yan	Supervisor	Female	46	3/2010	3/2013	0	0	–	0	0	0	30.05	0	Yes
Xu Weiyan	Supervisor	Female	48	3/2010	3/2013	5,110	7,666	Note 1	73.8	0	0	30.05	0	Yes
Wei Zaisheng	Executive Vice President and Chief Financial Officer	Male	48	3/2010	3/2013	215,233	322,850	Note 1	170.1	0	0	30.05	0	No

Directors, Supervisors, Senior Management and Employees

										Shares granted under the Share Incentive Scheme (restricted A shares)				
Name	Title	Gender	Age	Term of office commencing on	Term of office ending on	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Reason for change	Total remuneration received from the Company during the reporting period (RMB10,000) (before tax)	Number of restricted shares granted (share)	Number of restricted shares granted during the period (shares)	Grant price of restricted shares (cum-right basis) (RMB)	Number of restricted shares held at the end of the reporting period	Whether remuneration is received from shareholder entities or other connected entities
Xie Daxiong	Executive Vice President	Male	47	3/2010	3/2013	289,607	414,410	Note 1 and 2	143.9	273,000	0	30.05	122,850	No
Tian Wenguo	Executive Vice President	Male	42	3/2010	3/2013	206,877	233,316	Note 1 and 2	140.6	273,000	0	30.05	122,850	No
Qiu Weizhao	Executive Vice President	Male	47	3/2010	3/2013	182,000	273,000	Note 1	152.7	273,000	0	30.05	122,850	No
Fan Qingfeng	Executive Vice President	Male	42	3/2010	3/2013	292,500	363,750	Note 1 and 2	162.0	409,500	0	30.05	184,275	No
Chen Jie	Senior Vice President	Female	52	3/2010	3/2013	366,990	550,485	Note 1	178.9	273,000	0	30.05	122,850	No
Zhao Xianming	Senior Vice President	Male	44	3/2010	3/2013	347,100	393,150	Note 1 and 2	104.5	491,400	0	30.05	221,130	No
Pang Shengqing	Senior Vice President	Male	42	3/2010	3/2013	292,891	329,502	Note 1 and 2	155.3	409,500	0	30.05	184,275	No
Zeng Xuezhong	Senior Vice President	Male	37	3/2010	3/2013	312,000	368,000	Note 1 and 2	136.1	409,500	0	30.05	184,275	No
Xu Huijun	Senior Vice President	Male	37	3/2010	3/2013	347,100	408,121	Note 1 and 2	120.3	491,400	0	30.05	221,130	No
Ye Weimin	Senior Vice President	Male	44	3/2010	3/2013	256,524	384,786	Note 1	120.4	273,000	0	30.05	122,850	No
Ni Qin	Senior Vice President	Male	51	3/2010	3/2013	351,489	527,233	Note 1	104.8	273,000	0	30.05	122,850	No
Wu Zengqi	Senior Vice President	Male	46	3/2010	3/2013	299,000	336,375	Note 1 and 2	159.1	409,500	0	30.05	184,275	No
Zhu Jinyun	Senior Vice President	Male	39	3/2010	3/2013	253,708	304,450	Note 1 and 2	143.7	380,562	0	30.05	171,252	No
Zhang Renjun	Senior Vice President	Male	42	3/2010	3/2013	0	0	–	85.7	0	0	30.05	0	No
Feng Jianxiong	Secretary to the Board of Directors	Male	37	3/2010	3/2013	195,000	262,500	Note 1 and 2	86.4	273,000	0	30.05	122,850	No
Total	–	–	–	–	–	5,995,031	8,157,449	–	3,339.8	5,128,851	0	–	2,307,982	–

Note 1: The 2009 profit distribution and capitalisation of capital reserve plans (creation of 5 shares for every 10 shares and RMB3 for every 10 shares (including tax) in cash) were implemented on 24 June 2010. The shareholdings of Directors, supervisors and senior management have been increased accordingly.

Note 2: Shareholdings were reduced or increased in accordance with the provisions of "Administrative Rules for Company Shareholdings by Directors, Supervisors and Senior Management of Listed Companies and Their Changes".

Note 3: Except for Independent Director Mr. Li Jin who left office in June 2010, all other aforesaid Directors and Supervisors left office in March 2010 upon the conclusion of their term of office.

Note 4: Mr. Zhao Xinyu's appointment as Supervisor commenced in March 2010 and he resigned as Staff Representative Supervisor in June 2010 owing to his job change.

Note 5: None of the Directors, Supervisors or senior management of the Company held any H shares in the issued capital of the Company during the reporting period.

Note 6: The first unlocking of shares granted to the Directors and senior management of the Company under the Share Incentive Scheme was completed on 26 February 2010. For details, please refer to the Announcement of the Company on the First Unlocking of Shares Granted to the Directors and Senior Management of the Company under the Share Incentive Scheme publish in newspapers and websites designated for information disclosure dated 27 February 2010. The second unlocking was completed on 4 June 2010. For details, please refer to the Announcement of the Company on the Completion of the Second Unlocking of Subject Shares Granted under the First Award of the Phase I Share Incentive Scheme published on 3 June 2010.

(III) 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	2010.4–2013.5
	CASIC Shenzhen (Group) Company Limited	Director and general manager	Since 2003
Zhang Junchao	Zhongxingxin	Vice chairman	2010.4–2013.5
	Xi'an Microelectronics	Authorized representative	Since 2003.10
Dong Lianbo	Zhongxingxin	Director	2010.4–2013.5
	CASIC Shenzhen (Group) Company Limited	Director, secretary to the Party Committee and deputy general manager	Since 2003
Zhang Taifeng	Zhongxingxin	Vice chairman	2010.4–2013.5
Wei Zaisheng	Zhongxingxin	Director	2010.4–2013.5
Qu Deqian	Zhongxingxin	Supervisor	2010.4–2013.5

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

Name	Name of shareholder	Position
Hou Weigui	Holding positions in 15 subsidiaries including Shenzhen ZTE Software Company Limited	Chairman and director
	Zhongxing WXT	Chairman
	Zhongxing Development	Chairman
	Zhongxing Energy Company Limited	Chairman
Wang Zongyin	Long March Launch Vehicle Technology, Co., Ltd	Vice Chairman
Lei Fanpei	Beijing Shenzhou Aerospace Software Technology Co., Ltd.	Chairman
	China Aerospace Corporation	Party Committee member/ deputy general manager
	China Astronautic Publishing House Co., Ltd.	Executive director
Xie Weiliang	Shenzhen Aerospace Guangyu Industrial (Group) Company	General manager
Li Juping	China Aerospace Electronic Technology Institute (formerly known as China Aerospace Times Electronics Corporation)	Chief engineer
Wang Zhanchen	China Aerospace Electronic Technology Institute (formerly known as China Aerospace Times Electronics Corporation)	Secretary to the Party Committee
Dong Lianbo	Shenzhen Aerospace Guangyu Industrial (Group) Company	Secretary to the Party Committee/ deputy general manager
Mi Zhengkun	Nanjing University of Posts and Telecommunications	Professor
Li Jin	Technology Exchange Co., Ltd.	Vice president
Qu Xiaohui	Xiamen University	Head/professor
	Yunnan Baiyao Group Co., Ltd.	Independent Director

Directors, Supervisors, Senior Management and Employees

Name	Name of shareholder	Position
	Taikang Life Insurance Co., Ltd	Independent Director
	Mintai'an Insurance and Public Valuation Co., Ltd.	Independent Director
Wei Wei	Peking University HSBC Business School	Associate dean
	Changyuan Group Company Limited	Independent director
	Dalian Zhangzidao Fishery Group Company Limited	Independent director
Chen Naiwei	Shanghai Allbright Law Offices	Partner/lawyer/professor
Tan Zhenhui	Beijing Jiaotong University	Director of Academic Committee/ professor
Timothy Alexander Steinert	Alibaba Group Holding Limited	Chief legal officer
Zhang Taifeng	Holding positions in 3 subsidiaries including ZTE Kangxun	Chairman
Wang Wangxi	Holding positions in 3 subsidiaries including ZTE (Heyuan) Company Limited	Director/chairman of supervisory committee
Shi Lirong	Holding positions in 8 subsidiaries including ZTE Kangxun	Chairman/director
	Zhongxing WXT	Director
	Zhongxing Energy Company Limited	Director
	Beijing Xieli Chaoyue Technology Company Limited (北京協力超越科技有限公司)	Legal representative
Yin Yimin	Holding positions in 15 subsidiaries including ZTE Kangxun	Chairman/director
	Zhongxing WXT	Vice chairman
	Hekang Investment Management Company Limited of Shenzhen	Executive director
	ZTE Capital Management Company Limited of Shenzhen	Chairman
He Shiyou	Holding positions in 3 subsidiaries including Shenzhen Zhongxing Mobile Technology Company Limited	Chairman/director
	Zhongxing WXT	Supervisor
Wei Zaisheng	Holding positions in 16 subsidiaries including ZTE Kangxun	Chairman/director
	Zhongxing WXT	Director
	Shenzhen Chuangxin Technology Investment Group Company Limited (深圳創新科技投資集團有限公司)	Supervisor
	Zhongxing Energy Company Limited	Director
Xie Daxiong	Holding positions in 5 subsidiaries including Tianjin Zhongxing Software Company Limited (天津中興軟件有限責任公司)	Chairman/director
Qiu Weizhao	ZTE Microelectronics Technology Company Limited	Director
Chen Jie	Holding positions in 14 subsidiaries including ZTE soft Technology Company Limited	Chairman/director/general manager

Name	Name of shareholder	Position
Fan Qingfeng	Holding positions in 2 subsidiaries including Shenzhen Zhongliancheng Electronic Development Company Limited (深圳市中聯成電子發展有限公司)	Director
Tian Wenguo	Holding positions in 4 subsidiaries including Beijing Zhongxing Intelligent Transportation Systems Ltd.	Chairman
Zhao Xianming	Holding positions in 2 subsidiaries including ZTE Integration Telecom Co., Ltd.	Chairman/director
Pang Shengqing	Holding positions in 2 subsidiaries including ZTE Japan K.K.	Director
Zeng Xuezhong	Holding positions in 5 subsidiaries including Anhui Wantong Posts and Telecommunications Company, Limited	Chairman/director
Xu Huijun	Holding positions in 5 subsidiaries including Wuxi Zhongxing Optoelectronics Technologies Company, Limited	Chairman/director/general manager
Ni Qin	Tianjin Zhongxing Software Company Limited	Director
Zhu Jinyun	ZTE (USA) Inc.	Director
Zhang Renjun	中興香港埃塞俄比亞有限公司	Chairman
Wang Wangxi	Holding positions in 2 subsidiaries including Shenzhen Zhongruan Haina Technology Company, Limited	Director/chairman of supervisory committee
Qu Deqian	Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Director
	Holding 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	Holding positions in 11 subsidiaries including Zhongxing Xinyu	Director/supervisor
Feng Jianxiong	Holding positions in 2 subsidiaries including Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited	Director/supervisor

(V) CHANGES IN DIRECTORS SUPERVISORS AND SENIOR MANAGEMENT

1. Changes in the Directors of the Company during the year

At the First Extraordinary General Meeting of the Company held on 30 March 2010, Mr. Hou Weigui, Mr. Lei Fanpei, Mr. Xie Weiliang, Mr. Wang Zhanchen, Mr. Zhang Junchao, Mr. Dong Lianbo, Mr. Shi Lirong, Mr. Yin Yimin, Mr. He Shiyou, Mr. Li Jin, Ms. Qu Xiaohui, Mr. Wei Wei, Mr. Chen Naiwei and Mr. Tan Zhenhui were elected as members of the Fifth Session of the Board of Directors of the Company, which shall carry a term from 30 March 2010 to 29 March 2013.

Mr. Li Jin, Independent Director of the Company, left office after the expiry of the maximum term of 6 years for his appointment on 29 June 2010.

Directors, Supervisors, Senior Management and Employees

At the 2009 Annual General Meeting of the Company convened on 3 June 2010, Mr. Timothy Alexander Steinert (石義德) was elected as an Independent Director of the Fifth Session of the Board of Directors of the Company for a term commencing on 30 June 2010 and ending on the date on which the Fifth Session of the Board of Directors of the Company concludes (namely 29 March 2013).

2. Changes in the Supervisors of the Company during the year

At the First Extraordinary General Meeting of the Company held on 30 March 2010, Ms. Wang Yan and Ms. Xu Weiyan were elected as Shareholders' Representative Supervisors of the Fifth Session of the Supervisory Committee of the Company. Mr. Zhang Taifeng, Ms. He Xuemei and Mr. Zhao Xinyu were elected as Staff Representative Supervisors of the Fifth Session of the Supervisory Committee of the Company through democratic elections by the staff representatives of the Company on 17 March 2010. The Fifth Session of the Supervisory Committee shall carry a term from 30 March 2010 to 29 March 2013.

The Supervisory Committee of the Company announced on 17 June 2010 that Mr. Zhao Xinyu, Staff Representative Supervisor of the Company had resigned from the position of Staff Representative Supervisor as a result of his job change.

On 21 June 2010, Mr. Zhou Huidong was elected as Staff Representative Supervisor of the Fifth Session of the Supervisory Board of the Company at the staff assembly of the Company for a term that expires on the conclusion of the Fifth Session of the Supervisory Board of the Company. On the same date, the resignation of Mr. Zhao Xinyu became effective.

3. Changes in the senior management of the Company during the year

Pursuant to the "Resolution on the Appointment of Senior Management of the Company" considered and passed at the first meeting of the Fifth Session of the Board of Directors of the Company held on 30 March 2010, it was approved that: Mr. Shi Lirong be appointed President of the Company; Mr. He Shiyou, Mr. Wei Zaisheng, Mr. Xie Daxiong, Mr. Tian Wenguo, Mr. Qiu Weizhou and Mr. Fan Qingfeng each be appointed an Executive Vice President of the Company; and Mr. Wei Zaisheng be concurrently appointed as Chief Financial Officer of the Company; Ms. Chen Jie, Mr. Zhao Xianming, Mr. Pang Shengqing, Mr. Zeng Xuezhong, Mr. Xu Huijun, Mr. Ye Weimin, Mr. Ni Qin, Mr. Wu Zengqi, Mr. Zhu Jinyun and Mr. Zhang Renjun each be appointed a Senior Vice President of the Company; and Mr. Feng Jianxiong be appointed Secretary to the Board of Directors of the Company.

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

The Remuneration and Evaluation Committee of the Board of Directors 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 are determined and payable by the Company in accordance with the aforesaid provisions and procedures.

(VII) DIRECTORS' ATTENDANCE AT THE BOARD MEETINGS

Name of Directors	Position	Attendance required Note 1	Attendance in person (including attendance via video conference)	Attendance via communications means	Attendance by proxy	Absence	Two consecutive absences in person
Hou Weigui	Chairman and Non-executive Director	18	9	8	1	0	Nil
Wang Zongyin	Vice Chairman and Non-executive Director	3	0	2	1	0	Nil
Lei Fanpei	Vice Chairman and Non-executive Director	15	5	6	4	0	Nil Note 1
Xie Weiliang	Vice Chairman and Non-executive Director	18	7	8	3	0	Nil
Wang Zhanchen	Non-executive Director	15	6	6	3	0	Yes Note 1 and Note 3
Zhang Junchao	Non-executive Director	18	7	8	3	0	Yes Note 2
Li Juping	Non-executive Director	3	0	2	1	0	Nil
Dong Lianbo	Non-executive Director	18	9	8	1	0	Nil
Shi Lirong	Executive Director	18	7	8	3	0	Nil
Yin Yimin	Executive Director	18	9	8	1	0	Nil
He Shiyou	Executive Director	18	5	8	5	0	Yes Note 4
Mi Zhengkun	Independent Non-executive Director	3	1	2	0	0	Nil
Li Jin	Independent Non-executive Director	7	4	2	1	0	Nil Note 1
Qu Xiaohui	Independent Non-executive Director	18	9	8	1	0	Nil
Wei Wei	Independent Non-executive Director	18	7	8	3	0	Nil
Chen Naiwei	Independent Non-executive Director	18	8	8	2	0	Yes Note 5
Tan Zhenhui	Independent Non-executive Director	15	8	6	1	0	Nil Note 1
Timothy Alexander Steinert	Independent Non-executive Director	11	5	6	0	0	Nil Note 1
Board meetings held during the year							18
Including: on-site meetings							3
Meetings via communications means							8
On-site meetings assisted by communications means							7

Note 1: The three-year term of the Fourth Session of the Board of Directors concluded on 29 March 2010. Vice Chairman Mr. Wang Zongyin, Director Mr. Li Juping and Independent Director Mr. Mi Zhengkun, being members of the Fourth Session of the Board of Directors, left office upon the conclusion of their respective terms of appointment.

Note 2: Director Mr. Zhang Junchao did not attend the Tenth and the Eleventh Meetings of the Fifth Session of the Board of Directors owing to work reasons and appointed in writing Director Mr. Shi Lirong and Vice Chairman Mr. Xie Weiliang, respectively, to vote on his behalf.

Note 3: Director Mr. Wang Zhanchen did not attend the Third and the Fourth Meetings of the Fifth Session of the Board of Directors owing to work reasons and appointed in writing Chairman Mr. Hou Weigui to vote on his behalf at both meetings.

Directors, Supervisors, Senior Management and Employees

Note 4: Director Mr. He Shiyou did not attend the Tenth and the Eleventh Meetings of the Fifth Session of the Board of Directors owing to work reasons and appointed in writing Director Mr. Shi Lirong and Chairman Mr. Hou Weigui, respectively, to vote on his behalf.

Note 5: Independent Director Mr. Chen Naiwei did not attend the Third and the Fourth Meetings of the Fifth Session of the Board of Directors owing to work reasons and appointed in writing Independent Director Ms. Qu Xiaohui and Independent Director Mr. Li Jin, respectively, to vote on his behalf.

(VIII) HEADCOUNT AND CLASSIFICATION OF GROUP EMPLOYEES

As at the end of the year, the Group had 85,232 employees[Note], with an average age of 29. There were 71 retired employees.

1. Classification by specialisation as follows:

Specialisation	Number of employees	Approximate percentage of total number of employees (%)
R&D	27,941	32.8
Marketing and sales	12,987	15.2
Customer service	12,990	15.3
Manufacturing	22,855	26.8
Administration	8,459	9.9
Total	85,232	100.0

2. Classification by academic qualifications as follows:

Academic qualifications	Number of employees	Approximate percentage of total number of employees (%)
Doctorate degree	519	0.6
Master's degree	22,477	26.4
Bachelor's degree	33,097	38.8
Others	29,139	34.2
Total	85,232	100.0

Note: Among which 69,141 were employees of the parent company.

Corporate Governance Structure

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

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

I. Status of Corporate Governance

The Company continued to improve its corporate governance systems and regimes, regulate operations and optimise internal control regimes in accordance with requirements of the Company Law, Securities Law, Corporate Governance Standards for Listed Companies and relevant laws and regulations of CSRC. During the reporting period, the System for the Administration of External Information Users and the System of Accountability for Significant Errors in Information Disclosure of Annual Reports were formulated in accordance with CSRC Document 2009 No. 34 and the "Notice of concerning the Requirement of the Formulation of the System of Accountability for Significant Errors in Information Disclosure of Annual Reports for Listed Companies" issued by Shenzhen CSRC in February 2010. The System of Derivative Investment Risk Control and Information Disclosure was also formulated for the purposes of regulating derivative investment activities and implementing risk control in relation to derivative investments.

As at the end of the reporting period, the status of corporate governance of the Company was in compliance with the relevant requirements of the CSRC. There was no intra-group competition or connected transaction attributable to, among other things, partial corporate restructuring.

(I) **Shareholders and general meetings:** The Company has established a corporate governance structure to ensure that all shareholders, minority shareholders in particular, can fully exercise their rights and enjoy equal status. Sufficient time is provided at general meetings of shareholders, which are 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.

(II) **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 compromising 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 of Association. The staffing, assets, financial affairs, organisation and business of the controlling shareholder are independent from 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.

Corporate Governance Structure

(III) Directors and the Board: The Company appoints directors in strict compliance with the procedures set out its Articles of Association, 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 mix of expertise and acts in the best interests of the Company 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 of Association 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.

(IV) 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 of Association and the Rules of Procedure for Supervisory Committee Meetings.

(V) 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 of Association. 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.

(VI) 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.

(VII) 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 of Association in a true, accurate, complete and timely manner, ensuring that all shareholders have equal access to information. There were no instances of majority shareholders or de facto controllers owning information otherwise not publicly disclosed or other irregularities in corporate governance during 2010.

II. Specific Corporate Governance Activities

1. In accordance with the "Notice on the Full-scale Commencement of In-depth Specific Initiatives for the Regulation of Fundamental Financial and Accounting Work at Listed Companies in the Shenzhen Jurisdiction (《關於在深圳轄區上市公司全面深入開展規範財務會計基礎工作專項活動的通知》) issued by CSRC in Shenzhen, the Company has commenced specific initiatives for the regulation of fundamental financial and accounting work since April 2010. A task force for specific initiatives was set up under the leadership of the President as team leader and the Chief Financial Officer as deputy team leader. Plans for specific initiatives were devised and dedicated staff have been allocated to organise specific initiatives. The entire programme was implemented in two stages. During the first stage of self-inspection, the task force for specific initiatives conducted in-depth self-inspection of the fundamental financial and accounting work of the Company based on relevant work plans in a comprehensive, objective and practical manner and generated self-inspection reports, in accordance with pertinent regulations such as the Accounting Law of the People's Republic of China, Basic Rules for Corporate Internal Control and Rules for Fundamental Accounting Work. The results of self-inspection indicated that the Company was in compliance with the requirements of relevant financial and accounting laws and regulations in various major aspects, such as the establishment of an organisational structure for financial management, building of a financial management and accounting system, fundamental accounting work, building and management of financial information system. During the second stage of rectification and improvement, the Company had completed rectifications in areas of fundamental financial work requiring improvements, as identified in the self-inspection stage, and generated a rectification report by 30 October 2010 in accordance with relevant requirements. The standardisation of the Company's fundamental financial and accounting work in general has been further enhanced as a result.

2. In accordance with the "Notice on Self-inspection of the Establishment and Implementation of a Lasting Mechanism for Prevention of Fund Appropriation" issued by CSRC in Shenzhen, the Company vigorously rolled out initiatives for the establishment and implementation of a lasting mechanism to prevent fund appropriations by the controlling shareholder and its connected parties. On 22 September 2010, a dedicated self-inspection work group was formed and a self-inspection plan was formulated to implement self-inspection by dedicated personnel. The dedicated self-inspection work group conducted thorough self-inspection on the establishment and implementation of a lasting mechanism to prevent fund appropriations by the controlling shareholder and its connected parties, which included specific measures for safeguarding the independence of the listed company, scope of authority and disclosure procedures relating to decision making in connected transactions, scope of approval authority for cash payments, settlement periods for operating cash payments and receipts, the mechanism of freezing shareholdings of the controlling shareholder upon the occurrence of fund appropriation, as well as accountability and removal procedures for related Directors, Supervisors, senior management and other responsible officers, and generated a self-inspection report. The results of self-inspection indicated that, as 30 September 2010 (benchmark date for self-inspection), all operating cash payments and receipts between ZTE and its subsidiaries on the one hand and the controlling shareholders and its connected parties on the other were normal transactions. There were no fund appropriations of a non-operating nature, appropriations of operating funds as replacement non-operating fund appropriation, advances on behalf of the controlling shareholders and its connected parties, appropriations during the period repaid at the end of the period or disguised appropriation of funds of the listed company via non-arm's-length connected transaction. There were no illicit fund appropriations which were prohibited under 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).

Corporate Governance Structure

III. Establishment, Improvement and Performance of the Independent Director System

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 on 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 reviewed the matters concerned 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 2010 was as follows:

Name of Independent Directors	Number of Board meetings required to attend	Attendance in person	Attendance by proxy	Absence
Mi Zhengkun Note 1	3	3	0	0
Li Jin Note 2	7	6	1	0
Qu Xiaohui	18	17	1	0
Wei Wei	18	15	3	0
Chen Naiwei	18	16	2	0
Tan Zhenhui Note 1	15	14	1	0
Timothy Alexander Steinert Note 2	11	11	0	0

Note 1: Independent Director Mr. Mi Zhengkun of the Fourth Session of the Board of Directors left office upon the conclusion of the Fourth Session of the Board of Directors on 29 March 2010. With the nomination of the Thirty-second Meeting of the Fourth Session of the Board of Directors and the approval of the First Extraordinary Meeting of 2010 of the Company, Mr. Tan Zhenhui was elected as an Independent Director of the Fifth Session of the Board of Directors of the Company for a term commencing on 30 March 2010.

Note 2: Independent Director Mr. Li Jin resigned as an Independent Director and left office on 29 June 2010 having served a statutory maximum term of six years, With the nomination of the Second Meeting of the Fifth Session of the Board of Directors and the approval of the 2009 Annual General Meeting of the Company, Mr. Timothy Alexander Steinert was elected as an Independent Director of the Fifth Session of the Board of Directors of the Company for a term commencing on 30 June 2010.

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, Improvement and Self-Assessment of the Company's Internal Control System

(I) Overall Planning for the Development of the Internal Control System

The Company has established an all-encompassing and multi-level structure for internal control development comprising mainly Risk Management Committee, the Internal Control Task Force and the Internal Audit Department. The Risk Management Committee is the core department for internal control set-up, being focused on the fostering of a conducive internal environment and the roll-out of risk assessment. The Internal Control Task Force is focused on streamlining and regulating internal control activities, as well as the communication of information on the implementation of internal control. The internal Audit Department conducts internal control audit and relevant tests on a regular basis and exercises supervisory functions.

(II) Establishment and Improvement of Internal Control

1. Overview of the development and improvement of internal control

The Company has developed a comprehensive internal control system comprising the Rules of Procedure of the General Meetings, Rules of Procedure of the Board of Directors Meetings, Rules of Procedure of the Supervisors' Meetings, Independent Director System, Administrative Rules of the Company on Information Disclosure, Internal Control System of the Company and Administrative Rules of the Company on Issue Proceeds, System of Derivative Investment Risk Control and Information Disclosure and System for the Administration of External Information Users, etc in accordance with the Company Law, the Securities Law, the Corporate Governance Standards for Listed Companies, Basic Rules for Corporate Internal Control and Guidelines for Internal Control of Listed Companies and other laws and regulations and regulatory documents and taking into account its specific conditions. Our internal control establishment has basically covered all operating segments of the Company, including but not limited to: internal operations and management, finance guarantees, investment management, connected transactions, treasury management and information disclosure, etc. In 2010, the Company vigorously advanced its internal control development and achieved notable progress by improving the operating mechanism and organisational

Corporate Governance Structure

assurance of its internal control, strengthening development planning and driving various practical tasks in a stable manner. In line with the requirements of the Application Guidelines for Corporate Internal Control, the planning and implementation scheme for internal control in 2011 was determined and preparatory work was conducted in accordance with the guidelines.

2. Development and operation of internal control on financial reporting

The preparation of the Company's financial reports was conducted in strict accordance with the requirements of accounting laws and regulations and the centralised national accounting standard system. The system of internal control on financial reporting was in sound operation, and the process flow for the preparation of financial reports was proper and reasonable, with clearly defined duties and separation of non-compatible positions. Staff involved were updated in a timely manner with new developments in regulations for the preparation and disclosure of financial reporting. The internal audit department of the Company audited the financial reports on a regular basis and exercised control and audit over their preparation to effectively ensure the quality of financial reports disclosed. Reports supporting business decisions were made by departments in charge of the preparation of financial reports at the Company's business meetings on a regular basis. Financial data and financial analysis reports were also furnished to the Board of Directors on a regular basis.

Disclosure of financial information of the Company's regular reports conducted in accordance with Measures for the Administration of Information Disclosure by Listed Companies, the Articles of Association, the Rules of the Company on Information Disclosure and other pertinent regulations were in compliance with the requirements of pertinent laws and regulations. The Company formulated specific and appropriate accounting policies taking into account the characteristics of the industry and its own production operations. Significant accounting policies and estimates were disclosed in the notes to financial statements and the System of Accountability for Significant Errors in Information Disclosure of Annual Reports was established to specify the recognition of and procedures for handling significant accounting errors in financial reporting and accountability for significant errors in information disclosure of annual reports. The A share annual report and H share annual report published by the Company were respectively audited by Ernst & Young Hua Ming and Ernst & Young.

(III) Overall assessment of internal control

The internal system currently in force is sound, reasonable and effective, providing reasonable assurance for the legal compliance, asset security and true and complete financial reporting and information for the Company's operation and management. The Company's existing internal control system is fundamentally in compliance with pertinent national laws and regulations and requirements of securities regulatory authorities and in line with the actual conditions of the Company's production operations.

To ensure effective and comprehensive internal control in the long term, the Company will continue to make enhancements in this regard in pursuit of stable and healthy development. We will continue to supplement and improve our internal control system in a timely manner, enhance staff awareness in internal control, improve our ability in scientific decision making and risk prevention, drive compliance and execution of internal control and increase the effectiveness and efficiency of internal control in response to changes in the external business environment and new requirements under competent authorities or new policies and taking into account the actual requirements of the Company's development.

(IV) Deficiencies in internal control and improvement measures

1. Deficiencies in internal control on financial reporting and improvement measures

The Company has assured ongoing healthy development with the establishment of a rather comprehensive internal control system and risk management mechanism in strict accordance with the requirements of the Company Law and the Guidelines for Internal Control of Listed Companies taking into account its own business characteristics. The internal control system for financial reporting was in effective operation. Well-defined delegations, mutual checks and mutual supervision for internal positions involving accounting work were being enforced to assure legal compliance, truthfulness and completeness of financial reports.

2. Deficiencies in overall internal control and improvement measures

With rapid business development and corporate expansion, the Company experienced situations not covered by or sufficiently regulated under the existing system. While the Company's systems were rather comprehensive, implementation with stronger consistency and efforts is required. While ensuring standardised operation, the work rate of various departments also needs to be enhanced in fulfillment of actual requirements. To assure long-term effectiveness of the Company's internal control, continuous improvements to its internal control efforts are required.

As a company with dual listing in Shenzhen and Hong Kong, the Company will ensure compliance with pertinent regulatory provisions of both Mainland China and Hong Kong, making consistent efforts to enhance its corporate governance standards and strengthening development of its internal control regimes and systems in line with the primary concern of risk management. In 2011, the Company will adopt various measures to improve and its internal control system in response to issues identified. These measures shall mainly include the following:

(1) In accordance with the requirements of Application Guidelines for Corporate Internal Control, staff awareness of participation in internal control will be enhanced and implementation of internal control application guidelines will be organised within the corporation. ZTE Internal Control Manual and process optimisation report will be drawn up to further strengthen execution of the internal control system and improve our corporate governance standards;

(2) The Company will closely track the development process of various new products and businesses, and will continue to adjust, rectify and improve relevant business processes and internal control systems in a timely manner as and when necessary;

(3) The Company will engage professional consultants as appropriate and improve its internal control regime based on evaluation reports furnished by such consultant. We will draw on the experience of domestic and international companies with advanced standards in internal control to further raise the level of the Company's risk management and standardised operations, as well as to enhance its ability and standard in internal risk prevention and control.

(V) 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 2010 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 laws and regulations and requirements of securities regulatory authorities and was in line with the actual conditions of the production and operations of the Company.

Corporate Governance Structure

The Company will continue to enhance the establishment of its internal control system and supervision of its implementation to facilitate stable and healthy development. It will further improve the system, enhance staff awareness of internal control, strengthen its ability in scientific decision making and risk prevention, advance compliance and execution of internal controls and increase the effectiveness and efficiency of internal control in response to changes in the external business environment and in accordance with the requirements of new policies and regulations of relevant authorities based on actual requirements in the Company's development.

For details of the Company's internal control, please refer to the Self-assessment Report on Internal Control of ZTE Corporation in 2010 published on websites designated for information disclosure on 18 March 2011.

(VI) Opinion of the Supervisors of the Company on the Self-Assessment of Internal Control

1. The Company has established a comprehensive and proper internal control system in accordance with relevant regulations of the CSRC and the Shenzhen Stock Exchange and taking into account the specific conditions of the Company, effectively ensuring regulated operation and sound development for the Company and safeguarding the safety and integrity of the Company's assets.

2. The Company has established and optimised its internal organisational structure in accordance with modern enterprise systems and internal control principles, forming a scientific mechanism for decision-making, implementation and supervision. The Company's internal audit department is equipped with sufficient manpower that ensures effective implementation and supervision of its key internal control activities.

3. During the reporting period, the management and decision-making processes of the Company were in strict compliance with various rules and regulations and no violations of the Guidelines for Internal Control of Listed Companies published by the Shenzhen Stock Exchange or the Company's internal control system had been reported.

In view of the above, the Supervisory Committee is of the view that the self-assessment of the Company's internal control is comprehensive, true and accurate, duly reflecting the status of the Company's internal control, and has no objection to the assessment report on internal control of the Company.

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

1. The Company has established a comprehensive internal control regime in compliance with relevant laws, administrative regulations and departmental rules and regulations of the State. In 2010, the Company was in compliance with basic principles in internal control and further improved and developed its internal control and management system and continued to advance its internal control development in an orderly manner in a, taking into account its specific conditions, business development and management requirements.

2. 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. The internal control system in force is sound, reasonable and effective and provides reasonable assurance for legal compliance of the Company's operations and management, asset security and true and complete financial reporting and information disclosure.

3. The self-assessment of the Company's internal control duly reflects the status of the Company's internal control.

VII. The report of Corporate Social Responsibility

In 2010, the Company implemented relevant strategies in fulfillment of its new mission statement on corporate social responsibility, while continuing to report stable growth in operating income.

Since officially becoming a signatory to the United Nations Global Compact in 2009, the Group has been working to incorporate the compact and its ten principles into its operations and corporate culture, seeking to develop more advanced and environment-friendly communications products in fulfillment of its mission and responsibility of providing ongoing enhancements to the experience of human communications. Through our involvements in supply chains, overseas contract projects, staff training, international relief and charity activities, we have also fulfilled our corporate responsibility as a Chinese enterprise in other parts of the world. In 2010, the Group also launched a process to reflect on the culture of excellence, as employees, officers at various levels and the management actively participated in contributing ideas to the blueprint of the Group's development. Our efforts in corporate social responsibility have been widely recognized by governments, international organisations and the media.

For details of the Company's corporate social responsibility report, please refer to the report of Corporate Social Responsibility of ZTE Corporation published on websites designated for information disclosure on 18 March 2011.

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

The Company 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 Company had fully complied with all the principles and code provisions of the Code on Corporate Governance Practices set out as Appendix 14 to the Hong Kong Stock Exchange Listing Rules during the year ended 31 December 2010.

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 Chapter V of this annual report headed "Changes in Share Capital and Information of Shareholders".

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 Hong Kong Stock Exchange 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.

Corporate Governance Structure

(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 2010 are set out in the section of this report headed "XII. (XV) 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 2010. 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. Except 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 in the section of this annual report headed "VI. Directors, Supervisors, Senior Management and Staff".

The Company confirms that it has received annual written confirmations of independence from all the Independent Directors regarding their independence in accordance with Rule 3.13 of the Hong Kong Stock Exchange Listing Rules. In accordance with the guidelines on independence set out in the Hong Kong Stock Exchange Listing Rules, the Company is of the opinion that such directors are independent persons.

(III) Appointment and Removal of Directors

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

(IV) Board Meetings

1. The Articles of Association requires that the Board of Directors convene at least 4 meetings a year. In 2010, the Board of Directors of the Company convened 18 working meetings, the details of which are set out under IX.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 2010 was set out in the following table:

Directors	Attendance in person	Attendance by proxy
Chairman and Non-executive Director		
Hou Weigui Note 2	17	1
Vice Chairman and Non-executive Director		
Wang Zongyin Note 1	2	1
Lei Fanpei Note 2	11	4
Xie Weiliang Note 2	15	3
Non-executive Director		
Wang Zhanchen Note 2	12	3
Zhang Junchao Note 2	15	3
Li Juping Note 1	2	1
Dong Lianbo Note 2	17	1
Executive Director		
Shi Lirong Note 2	15	3
Yin Yimin Note 2	17	1
He Shiyou Note 2	13	5
Independent Non-executive Director		
Mi Zhengkun Note 1	3	0
Li Jin Note 2	6	1
Qu Xiaohui Note 2	17	1
Wei Wei Note 2	15	3
Chen Naiwei Note 2	16	2
Tan Zhenhui Note 2	14	1
Timothy Alexander Steinert Note 3	11	0

Corporate Governance Structure

Note 1: Vice Chairman Mr. Wang Zongyin, Director Mr. Li Juping and Independent Director Mr. Mi Zhengkun of the Fourth Session of the Board of Directors left office upon conclusion of the three-year term of the Fourth Session of the Board of Directors on 29 March 2010.

Note 2: At the first extraordinary meeting of 2010 of the Company held on 30 March 2010, the "Resolution of the Company on the Re-election of the Board of Directors of the Company and Election of Directors of the Fifth Session of the Board of Directors" was passed. Mr. Hou Weigui, Mr. Lei Fanpei, Mr. Xie Weiliang, Mr. Wang Zhanchen, Mr. Zhang Junchao, Mr. Dong Lianbo, Mr. Shi Lirong, Mr. Yi Yimin and Mr. He Shiyou were elected as Non-independent Directors of the Fifth Session of the Board of Directors of the Company, and Mr. Li Jin, Ms. Qu Xiaohui, Mr. Wei Wei, Mr. Chen Naiwei and Mr. Tan Zhenhui were elected as Independent Directors of the Fifth Session of the Board of Directors of the Company, by way of cumulative voting. With the exception of Independent Director Mr. Li Jin, the Independent Directors of the Fifth Session of the Board of Directors were appointed for a term from 30 March 2010 to 29 March 2013. Mr. Li Jin was appointed for a term from 30 March 2010 to 29 June 2010, being the date on which his statutory maximum term of six years concluded. At the First Meeting of the Fifth Session of the Board of Directors held on-site on 30 March 2010, the "Resolution on the Election of the Chairman and Vice Chairman of the Fifth Session of the Board of Directors of the Company" was considered and passed and Mr. Hou Weigui was elected Chairman of the Fifth Session of the Board of Directors of the Company, while Mr. Lei Fanpei and Mr. Xie Weiliang were elected Vice Chairmen of the Fifth Session of the Board of Directors of the Company.

Note 3: At the 2009 Annual General Meeting of the Company held on 3 June 2010, the "Resolution of the Company on the Election of Independent Directors" was considered and passed and Mr. Timothy Alexander Steinert was elected by way of cumulative voting as an Independent Director of the Fifth Session of the Board of Directors of the Company for a term commencing on 30 June 2010 and ending on the date on which the Fifth Session of the Board of Directors of the Company concludes (namely 29 March 2013).

2. As stipulated by the Articles of Association, 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 of Association 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 Hong Kong Stock Exchange 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. In respect of potential legal actions arising from the performance of duties by the Directors and with the mandate of the general meeting, at the Eighth Meeting of the Fifth Session of the Board of Directors held on 19 August 2010, the "Resolution on Directors', Supervisors' and Senior Management's Liability Insurance" was considered and passed, whereby the Company's contract with Chartis Insurance Company China Limited, Shenzhen Branch was extended for one year with a compensation limit of RMB30 million per annum. At the Eleventh Meeting of the Fifth Session of the Board of Directors held on 12 October 2010, the "Resolution on Increasing the Insurance Amount of Directors', Supervisors' and Senior Management's Liability Insurance" was considered and passed, whereby the execution of a contract for Directors', Supervisors' and Senior Management's Liability Insurance between the Company and Chartis Insurance Company China Limited, Shenzhen Branch for a term of one year with a compensation limit of RMB100 million per annum and the tabling of such resolution at the general meeting for consideration was approved. At the Third Extraordinary General Meeting of 2010 held on 30 November 2010, the "Resolution on Increasing the Insurance Amount of Directors', Supervisors' and Senior Management's Liability Insurance" was considered and approved and the compensation limit of Directors', Supervisors' and Senior Management's Liability Insurance was increased to RMB100 million per annum.

(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 2010, the Fifth Session of the Remuneration and Evaluation Committee, Nomination Committee and Audit Committee was elected for the Fifth Session of the Board of Directors. On 30 June 2010, new members were elected to the Nomination Committee and the Remuneration and Evaluation Committee by the Fifth Session of the Board of Directors. (For details of the new elections, please refer to VI (5) of this annual report headed "Changes in Directors, Supervisors and Senior Management.") 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 Non-executive Directors and 2 Non-executive Directors. The convenor of the Remuneration and Evaluation Committee of the Fourth Session of the Board of Directors is Independent Non-executive Director Mr. Wei Wei. Members of the committee include Mr. Hou Weigui, Mr. Wang Zongyin, Mr. Mi Zhengkun, Mr. Li Jin and Ms. Qu Xiaohui. Following the election of a new session of the Board of Directors of the Company on 30 March 2010 and the election of new independent directors of the Company on 30 June 2010, the convenor of the Remuneration and Evaluation Committee of the Fifth Session of the Board of Directors is Independent Non-executive Director Mr. Wei Wei,

Corporate Governance Structure

and members of the committee include Mr. Hou Weigui, Mr. Lei Fanpei, Ms. Qu Xiaohui, Mr. Tan Zhenhui and Mr. Timothy Alexander Steinert. In 2010, the Remuneration and Evaluation Committee convened 6 meetings. Attendance at the meetings was as follows:

Members of the Remuneration and Evaluation Committee	Attendance in person	Attendance by proxy
Wei Wei	5	1
Hou Weigui	5	1
Wang Zongyin Note 1	0	0
Mi Zhengkun Note 1	0	0
Qu Xiaohui	6	0
Li Jin Note 2	2	1
Lei Fanpei	0	3
Tan Zhenhui	6	0
Timothy Alexander Steinert Note 3	3	0

Note 1: Mr. Wang Zongyin and Mr. Mi Zhengkun, members of the Remuneration and Evaluation Committee of the Fourth Session of the Board of Directors left office on 30 March 2010 upon the re-election of the Board of Directors.

Note 2: At the First Extraordinary Meeting of 2010 of the Company held on 30 March 2010, Mr. Li Jin was elected by way of cumulative voting Independent Director of the Fifth Session of the Board of Directors of the Company, for a term from 30 March 2010 to 29 June 2010. In accordance with the Terms of Reference of the Remuneration and Evaluation Committee of the Company, the term of office of the member of the Remuneration and Evaluation Committee shall be consistent with that of the Director. Therefore, the term of office of Independent Director Mr. Li Jin as a member of the Remuneration and Evaluation Committee of the Fifth Session of the Board of Directors also ended on 29 June 2010.

Note 3: At the Fifth Meeting of the Fifth Session of the Board of Directors of the Company held on 30 June 2010, Independent Director Mr. Timothy Alexander Steinert was elected as a member of the Remuneration and Evaluation Committee of the Fifth Session of the Board of Directors to fill the vacancy.

(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 6 meetings in 2010 to:

a) review and approve the resolution on the election of the convenor for the Remuneration and Evaluation Committee of the Fifth Session of the Board of Directors;

b) review and approve the report of the remuneration packages for 2009;

c) review and approve the resolution on the performance appraisal of the President for 2009 and the amount of annual bonus;

d) review and approve the resolution on the performance appraisal of other senior management for 2009 and the amount of annual bonus;

e) review and approve the resolution on the principles for determining the amount of bonus for the Chairman of the Board of Directors and the Chairman of the Supervisory Committee for 2009;

f) review and approve the remuneration budget of the Company for 2010;

g) review and approve the performance management plan for the President of the Company for 2010;

h) review and approve the resolution of the Company on the adjustment of subsidies for Independent Directors and submit the same for review and approval by the Board of Directors of the Company;

i) review and approve the Measures for the Administration of the Phase I Share Incentive Scheme;

j) review and approve the resolution on the second unlocking of Subject Shares under the First Award of the Phase I Share Incentive Scheme and submit the same for review and approval by the Board of Directors of the Company;

k) perform work relating to the second unlocking of the Subject Shares under the First Award of the Phase I Share Incentive Scheme of the Company;

l) review and approve the resolution on the renewal of the liability insurance for Directors, Supervisors and senior management;

m) review and approve the performance management plan for other senior management of the Company for 2010;

n) review and approve the resolution on the increase of the insurance amount of the liability insurance for Directors, Supervisors and senior management;

o) review and approve the resolution on the first unlocking of the Subject Shares under the Second Award of the Phase I Share Incentive Scheme of the Company; and

p) perform work relating to the first unlocking of the Subject Shares under the Second Award of the Phase I Share Incentive Scheme of the Company.

Corporate Governance Structure

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 of Association 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 of the Fourth Session of the Board of Directors is Independent Non-executive Director Mr. Mi Zhengkun. Members of the committee include Mr. Hou Weigui, Mr. Xie Weiliang, Mr. Li Juping, Mr. Li Jin, Mr. Wei Wei and Mr. Chen Naiwei. Following the election of a new session of the Board of Directors of the Company on 30 March 2010 and the election of new independent directors of the Company on 30 June 2010, the convenor of the Nomination Committee of the Fifth Session of the Board of Directors is Independent Non-executive Director Mr. Tan Zhenhui and members of the committee include Mr. Hou Weigui, Mr. Xie Weiliang, Mr. Wang Zhanchen, Mr. Wei Wei, Mr. Chen Naiwei and Mr. Timothy Alexander Steinert.

In 2010, the Nomination Committee convened 3 meetings. Attendance of the meetings was as follows:

Members of the Nomination Committee	Attendance in person	Attendance by proxy
Mi Zhengkun Note 1	1	0
Hou Weigui	3	0
Xie Weiliang	2	1
Li Juping Note 1	1	0
Li Jin Note 2	2	1
Wei Wei	3	0
Chen Naiwei	3	0
Tan Zhenhui	2	0
Wang Zhanchen	1	1
Timothy Alexander Steinert Note 3	0	0

Note 1: Mr. Li Juping and Mr. Mi Zhengkun, members of the Nomination Committee of the Fourth Session of the Board of Directors left office on 30 March 2010 upon the re-election of the Board of Directors.

Note 2: At the First Extraordinary Meeting of 2010 of the Company held on 30 March 2010, Mr. Li Jin was elected by way of cumulative voting Independent Director of the Fifth Session of the Board of Directors of the Company, for a term from 30 March 2010 to 29 June 2010. In accordance with the Terms of Reference of the Nomination Committee of the Company, the term of office of the member of the Nomination Committee shall be consistent with that of the Director. Therefore, the term of office of Independent Director Mr. Li Jin as a member of the Nomination Committee of the Fifth Session of the Board of Directors also ended on 29 June 2010.

Note 3: At the Fifth Meeting of the Fifth Session of the Board of Directors of the Company held on 30 June 2010, Independent Director Mr. Timothy Alexander Steinert was elected as a member of the Nomination Committee of the Fifth Session of the Board of Directors to fill the vacancy.

(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 2010, the Nomination Committee held 3 meetings to:

a) review and approve the resolution on the proposed candidates for directorship of the Fifth Session of the Board of Directors and recommend the Fourth Session of the Board of Directors of the Company to nominate Mr. Hou Weigui, Mr. Lei Fanpei, Mr. Xie Weiliang, Mr. Wang Zhanchen, Mr. Zhang Junchao, Mr. Dong Lianbo, Mr. Shi Lirong, Mr. Yin Yimin and Mr. He Shiyou as candidates as Non-independent Directors of the Fifth Session of the Board of Directors; nominate Mr. Li Jin, Ms. Qu Xiaohui, Mr. Wei Wei, Mr. Chen Naiwei and Mr. Tan Zhenhui as candidates as Independent Directors of the Fifth Session of the Board of Directors of the Company. As Mr. Li Jin, Independent Director of the Fourth Session of the Board of Directors, was first appointed Independent Director of the Company on 30 June 2004, the term of office for Mr. Li Jin, Independent Director of the Fifth Session of the Board of Directors, shall be from 30 March 2010 to 29 June 2010, in accordance with the rule that an independent director shall not hold successive offices for more than six years. Other than Mr. Li Jin, the term of office for other candidates of Non-independent Directors and candidates as Independent Directors of the Fifth Session shall be from 30 March 2010 to 29 March 2013; submit the same to the Board of Directors and to the general meeting for consideration and approval;

b) review and approve the resolution on the election of the convenor of the Nomination Committee of the Fifth Session of the Board of Directors and the election of Mr. Tan Zhenhui as the convenor of the Nomination Committee of the Fifth Session of the Board of Directors;

c) review and approve the resolution on the proposed appointment of senior management of the Company for a new term; propose the appointment of Mr. Shi Lirong as President of ZTE Corporation; propose the reappointment of Mr. He Shiyou, Mr. Wei Zaisheng, Mr. Xie Daxiong, Mr. Tian Wenguo, Mr. Qiu Weizhao and Mr. Fan Qingfeng as Executive Vice President of ZTE Corporation; propose the re-appointment of Mr. Wei Zaisheng as Chief Financial Officer of ZTE Corporation concurrently; propose the re-appointment of Ms. Chen Jie, Mr. Zhao Xianming, Mr. Pang Shengqing, Mr. Zeng Xuezhong, Mr. Xu Huijun, Mr. Ye Weimin, Mr. Ni Qin, Mr. Wu Zengqi, Mr. Zhu Jinyun and Mr. Zhang Renjun as Senior Vice President of ZTE Corporation; propose the appointment of Mr. Feng Jianxiong as Company Secretary of ZTE Corporation; and submit the same to the Board of Directors for consideration and approval; and

d) review and approve the resolution on the nomination of the candidate for independent director; recommend Mr. Timothy Alexander Steinert as the candidate for independent director of the Fifth Session of the Board of Directors of ZTE Corporation and submit the same to the Board of Directors and general meeting for consideration and approval.

Corporate Governance Structure

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 of the Fourth Session of the Board of Directors is Independent Non-executive Director Ms. Qu Xiaohui. Members of the committee include Mr. Hou Weigui, Mr. Zhang Junchao, Mr. Dong Lianbo, Mr. Wei Wei, Mr. Chen Naiwei and Mr. Mi Zhengkun. Following the election of a new session of the Board of Directors of the Company on 30 March 2010, the convenor of the Audit Committee of the Fifth Session of the Board of Directors is Independent Non-executive Director Ms. Qu Xiaohui and members of the committee include Mr. Hou Weigui, Mr. Zhang Junchao, Mr. Dong Lianbo, Mr. Wei Wei, Mr. Chen Naiwei and Mr. Tan Zhenhui. The Audit Committee was in compliance with the provisions of Rule 3.21 of the Hong Kong Stock Exchange Listing Rules.

In 2010, the Audit Committee convened 9 meetings. Attendance of the meetings was as follows:

Members of the Audit Committee	Attendance in person	Attendance by proxy
Qu Xiaohui	9	0
Hou Weigui	7	2
Zhang Junchao	7	2
Dong Lianbo	8	1
Wei Wei	8	1
Chen Naiwei	7	2
Mi Zhengkun [Note 1]	2	0
Tan Zhenhui [Note 2]	7	0

Note 1: Mr. Mi Zhengkun, members of the Audit Committee of the Fourth Session of the Board of Directors left office on 30 March 2010 upon the re-election of the Board of Directors.

Note 2: At the First Extraordinary Meeting of 2010 of the Company held on 30 March 2010, Mr. Tan Zhenhui was elected by way of cumulative voting Independent Director of the Fifth Session of the Board of Directors of the Company, for a term from 30 March 2010 to 29 March 2013. At the First Meeting of the Fifth Session of the Board of Directors held on 30 March 2010, Mr. Tan Zhenhui was elected member of the Audit Committee of the Fifth Session of the Board of Directors.

(3) Work of the Audit Committee during the year

The Audit Committee convened 9 meetings in 2010 to:

a) review the financial report of the Company for the year ended 31 December 2009, and submit the same to the Board of Directors for its consideration and approval;

b) Receive the report of Ernst & Young on the audit plan relating to the financial report of the Company in 2009;

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

d) review and approve the resolution on the election of the convenor of the Audit Committee of the Fifth Session of the Board of Directors and elect Ms. Qu Xiaohui as the convenor of the Audit Committee of the Fifth Session of the Board of Director;

e) review the self-assessment report on internal control of the Company for the year ended 31 December 2009;

f) review the internal audit and internal control testing reports of the Company for the year ended 31 December 2009;

g) review the audit fees payable to the PRC and international auditors for the year ended 31 December 2009 and submit the same to the Board of Directors for its consideration and approval;

h) review resolutions of the Company on the appointment of PRC and international auditors for 2010 and submit the same to the Board of Directors and general meeting for consideration and approval;

i) review the summary report on the audit of the Company performed by the PRC and international auditors in 2009;

j) review the System of Accountability for Significant Errors in Information Disclosure of Annual Reports and submit the same to the Board of Directors for consideration and approval;

k) review and approve the report of the Company on the deposit and application of issue proceeds for 2009;

l) review the report on the preparation of the report of the Company for the first quarter of 2010 and submit the same to the Board of Directors for its consideration and approval;

m) review the system of derivative investment risk control and information disclosure of the Company and submit the same to the Board of Directors for its consideration and approval;

n) review the resolution of the Company for the application of investment quota for fixed income derivatives for 2010 and submit the same to the Board of Directors for its consideration and approval;

o) review the resolution of the Company for the application of foreign exchange value-protection derivative investment quota and submit the same to the Board of Directors for its consideration and approval;

p) review the resolution of the Company for the application of foreign exchange derivative investment quota and submit the same to the Board of Directors for its consideration and approval;

q) review the interim financial report of the Company for the six months ended 30 June 2010 and submit the same to the Board of Directors for its consideration and approval; and

r) review the report on the preparation of the report of the Company for the third quarter of 2010 and submit the same to the Board of Directors for its consideration and approval.

Corporate Governance Structure

(VII) Respective scopes of delegation of the Board of Directors and the Management

The scopes of delegation 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 of Association, 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 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 of Association. Duties of the Chairman and the President of the Company are set forth in Articles 164 and 181 of the Articles of Association, respectively.

The Chairman of the Company 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 Fourth Session of the Supervisory Committee of the Company comprises Mr. Zhang Taifeng (Chairman), Ms. He Xuemei, Mr. Qu Deqian, Mr. Wang Wangxi and Ms. Wang Yan. Following the election of the new session of Supervisory Committee on 30 March 2010 and the resignation of Supervisor Mr. Zhao Xinyu in June 2010, the Fifth Session of the Supervisory Committee of the Company comprised Mr. Zhang Taifeng (Chairman), Ms. He Xuemei, Ms. Wang Yan, Ms. Xu Weiyan and Mr. Zhou Huidong. For details of changes in supervisors, please refer to VI (5) of this annual report headed “Changes in Directors, Supervisors and Senior Management.”

The Supervisory Committee convened 8 meetings in 2010. Attendance of meetings is set out as follows:

Members of the Supervisory Committee	Attendance in person	Attendance by proxy
Zhang Taifeng	8	0
Wang Wangxi [Note 1]	0	1
He Xuemei	8	0
Zhao Xinyu [Note 2]	4	0
Zhou Huidong [Note 3]	4	0
Qu Deqian [Note 1]	1	0
Wang Yan	7	0
Xu Weiyan	6	1

Note 1: Mr. Wang Wangxi and Mr. Qu Deqian of the Fourth Session of the Supervisory Committee left office upon the re-election of the Supervisory Committee on 30 March 2010.

Note 2: Mr. Zhao Xinyu was elected Staff Representative Supervisor of the Fifth Session of the Supervisory Committee through democratic elections by the staff representatives of the Company on 17 March 2010. The Supervisory Committee of the Company announced on 17 June 2010 that Staff Representative Supervisor Mr. Zhao Xinyu resigned from his position of Staff Representative Supervisor owing to his job change.

Note 3: Mr. Zhou Huidong was elected Staff Representative Supervisor of the Fifth Session of the Supervisory Committee at the Staff Representative Assembly of the Company on 21 June 2010 for a term concurrent with Fifth Session of the Supervisory Committee. The resignation of Mr. Zhao Xinyu became effective on the same date.

(II) Details of the Supervisory Committee meetings convened during the year and the work of the Supervisory Committee in 2010 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 the section of this annual report headed "VI.(II) 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

The company did not enter into any service contract which is not determinable by the company within one year without payment of compensation (other than statutory compensation) with any director or supervisor.

(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 2010.

(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 2010 are set out in the section of this annual report headed "VI. (II) Changes in the Shareholdings and Remuneration of the Company's Directors, Supervisors and Senior Management".

Corporate Governance Structure

Save as disclosed above, as at 31 December 2010, 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 2010, 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 and Supervisors 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 2010.

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 6 consecutive years from 2005 to 2010. Ernst & Young has been appointed the Company's Hong Kong auditors for 7 consecutive years since 2004.

The Company did not pay any remuneration in connection with non-audit related services to the aforesaid auditors during 2010.

Item	Amount	Auditor
Audit fees 2010	RMB1 million	Ernst & Young Hua Ming
Audit fees 2010	HKD5.18 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 resources on the financial reporting functions qualification and experience of the staff and whether the courses and budget for staff training are sufficient.

The Company continued to improve its internal control system in 2010. Internal control planning was drawn under the leadership of the Company's internal control project team, which made dedicated efforts to reinforce the internal control culture and system in all operations of the Company. The risk management committee of the Company was committed to the continuous building of risk management controls as part of the Company's internal control system to enhance the Company's ability to prevent and address specific risks. At the Company's Audit Department, the scope of audit and coverage of various businesses was also continuously enhanced. In 2010, the Company launched specific activities to regulate fundamental financial and accounting operations in accordance with relevant requirements of CSRC in Shenzhen. A rectification report has been prepared and overall standardisation of the Company's fundamental accounting and financial operations has been further enhanced. All in all, the Company has established relevant control systems and mechanisms in five areas, namely the environment for control, risk assessment, business controls, information and communications and supervision.

The Audit Committee under the Board of Directors convenes regular meetings each year in accordance with relevant laws and regulations 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 2010.

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 2010, please refer to the sections headed "I. Status of Corporate Governance", "II. Specific Corporate Governance Activities" and "VI. Establishment, Improvement and Self-Assessment of the Company's Internal Control System" in "PART I: CORPORATE GOVERNANCE WORK REPORT".

General Meetings of Shareholders

The Company convened the First Extraordinary General Meeting of 2010 on-site on 30 March 2010. The announcements of resolutions passed at the meeting were published in China Securities Journal, Securities Times and Shanghai Securities News on 31 March 2010.

The 2009 Annual General Meeting was held on-site on 3 June 2010. The announcement of resolutions passed at the meeting was published in China Securities Journal, Securities Times and Shanghai Securities News on 4 June 2010.

The Company convened the Second Extraordinary General Meeting of 2010 on-site on 10 September 2010. The announcements of resolutions passed at the meeting were published in China Securities Journal, Securities Times and Shanghai Securities News on 11 September 2010.

The Company convened the Third Extraordinary General Meeting of 2010 on-site on 30 November 2010. The announcements of resolutions passed at the meeting were published in China Securities Journal, Securities Times and Shanghai Securities News on 1 December 2010.

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 2010.

BUSINESSES 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, terminals, telecommunications software systems and services.

FINANCIAL RESULTS

Please refer to page 129 and page 272 of this annual report for the results of the Group for the year ended 31 December 2010 prepared in accordance with PRC ASBEs and HKFRSs, respectively.

FINANCIAL SUMMARY

Set out on pages 17-18 of this annual report are the results and financial position summary of the Group for the three financial years ended 31 December 2010 prepared in accordance with the PRC ASBEs.

Set out on pages 18-19 of this annual report are the results and financial position of the Group for the five financial years ended 31 December 2010 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 2006, 2007, 2008, 2009 and 2010 prepared in accordance with HKFRSs.

(I) Business Review for 2010

Overview of the PRC telecommunications industry

During 2010, the PRC telecommunications industry was engaged in active developments towards industrial transformation, focusing mainly on approaches that would help speed up the process of change. There was steady progress in the network construction and business development of 3G, while the mobile Internet segment enjoyed thriving growth. Competition in the market was further streamlined, while stable growth was generally sustained for the industry in a clear trend of upside adjustment. According to statistics published by the Ministry of Industry and Information Technology, revenue for the domestic telecommunications sector amounted to RMB898.8 billion for 2010 and new fixed asset investments amounted to RMB319.7 billion.

Overview of the global telecommunications industry

Governments of various countries started to increase their investments in telecommunications infrastructure in 2010 in tandem with the gradual resurgence in GDP of the world's major economies. The overall investment in telecommunications was comparable to and slightly stronger than that for 2009. Regionally, emerging nations in the Asia Pacific, CIS and Latin America were leading the way in terms of investment growth rate, while Western Europe and North America remained the largest contributors to global investments in telecommunications in real terms.

Technological progress in the communications industry took a new turn during the reporting period, as we sought inherent quality through detailed work and overall improvements through integration and innovation. Broadband and mobile communications remained the principal drivers for current technological developments, as international governments continued to be actively involved in the construction of broadband networks to satisfy the demand

Report of the Board of Directors

for bandwidth that allowed desirable speed of transmission. Meanwhile, a number of countries were launching 4G licenses for auction, while the construction of LTE for experimental commercial applications also started in developed markets such as Europe, the United States and Japan.

During the reporting period, there were increasing mergers and acquisitions among carriers in the emerging markets, while little change was noted in the landscape of global competition among major equipment manufacturers.

Operating results of the Group for 2010

The Group continued to gain new ground in 2010 under the leadership of its management for the new term. During the reporting period, the Group achieved synchronous growth in scale and profit by making further efforts to focus on the high-end market in response to changes in market segmentation. Operating revenue of the Group for 2010 based on financial statements prepared in accordance with PRC ASBEs amounted to RMB70.264 billion, representing a year-on-year growth of 16.58%. Net profit attributable to shareholders of the parent company grew 32.22% to RMB3.250 billion compared with last year.

By market

The domestic market

During the reporting period, the Group derived operating revenue of RMB32.198 billion from the domestic market, representing a year-on-year growth of 5.90%. With the 12th Five Year Plan providing a solid foundation for the development of the communications industry in the domestic market, the Group further enlarged its domestic market shares by capitalising on opportunities presented by national policies in favour of 3 Networks' Integration and the development of the Internet of Things, while continuing to increase its domestic market shares by vigorously complementing carriers to seize opportunities arising from their implementation of Cloud Computing and improvements of indoor coverage and wireless access. During the reporting period, the Group started to supply high-end data equipment such as T8000 and M6000 to the three big carriers in large volumes, while its smart terminal equipment was also gaining market recognition.

The international domestic market

During reporting period, the Group's revenue from its international operations grew 27.45% to RMB38.066 billion and accounted for 54.18% of its total operating revenue. The Group focused on mainstream carriers in response to changes in market segmentation against intense competition and signs of international trade protectionism. In adherence to the guiding principles of "adjusting operating conditions, identifying market focus, optimising resources and winning businesses," we managed continuous growth in our international business results. Our systems products were extensively launched in Europe to enter high-end markets such as Germany, Belgium, Hungary and Austria. Business deals were also entered into with other mainstream carriers such as France Telecom, MTN of South Africa, America Movil, KPN and Hutchison Telecom. Moreover, our terminal products gained full access to the four leading carriers of the United States as well as the Japanese market.

By product

Carriers' Networks

In 2010, the Group continued to report stable breakthrough and growth in carriers' network products. In the segment of wireless products, the SDR-based integrated 2G/3G/4G wireless equipment was well received by customers as it added value for carriers by enabling higher frequency utilisation, lower TCO and stronger profitability. Plans for large-scale launch of our LTE products in Europe have been completed, while our superb ability in speedy delivery was convincingly displayed in the projects for Hutchison Austria and Telefonica of Spain. In overview, our strategy of focusing on mainstream carriers has been successful, underpinned by business deals with major players including Telenor, KPN, TeliaSonera of Northern Europe and France Telecom. In the segment of wireline products, the Group sought to maintain its leading edge technological innovations through ongoing investments. With the completion of the UPP platform and breakthroughs achieved in our T8000 and proprietary chips, our strengths in data products has been significantly bolstered to pave the way for further enhancements in our product competitiveness. During the reporting period, we received large-scale orders for our wireline products from buyers in high-end markets such as Europe and South America, while our FTTX product, the "next-generation xPON optical access platform", was named for the European INFOVISION Award in Paris for the second consecutive year.

While making inroads into new markets for its products, the Group remained strongly committed to enhancements in its technological and engineering abilities, as it strived to improve its ability in engineering delivery and the quality of its services by consistently meeting customers' requirements in operating cost reductions, low carbon emission and environment-friendliness.

Terminals

In 2010, the Group reported a major leap in the development of its terminal products underpinned by rapid growth in supply volumes. In the domestic market, we were actively engaged in customised research and development projects for carriers' products in association with other players in the industry chain, such as the TD Union, chip manufacturers, solution providers and channel distributors. Satisfactory results have been attained for terminal products in various modes, with many of them snatching dominant shares in carriers' collective purchases. Internationally, the Group has by now entered into deals with most of the companies among the world's top 30 carriers. Substantially all mainstream carriers in Europe and America were covered by us, while inroads were made in leading populous countries such as Japan and Brazil. The Group's BLADE smart phone terminals and other products enjoyed growing recognition in the markets of developed countries such as Europe and the United States.

Telecommunications software systems, services and other products

Growth in the operating revenue generated from the Group's telecommunications software systems, services and other products during the reporting period was mainly attributable to the increase in sales of fixed terminal products and video and network terminals in Europe and America and the increase in service income in Asia.

(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 and the accompanying notes thereto set out in the Annual Report.

Report of the Board of Directors

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

Unit: RMB in millions

Revenue mix	Operating revenue	Operating costs	Gross profit margin	Year-on-year increase/ decrease in operating revenue	Year-on-year Increase/ decrease in operating costs	Year-on-year Increase/ decrease in gross profit margin (percentage points)
I. By industry						
Manufacturing of Communication equipment	70,263.9	47,335.0	32.63%	16.58%	16.52%	0.03
Total	**70,263.9**	**47,355.0**	**32.63%**	**16.58%**	**16.52%**	**0.03**
II. By product						
Carriers' networks	41,990.2	25,852.9	38.43%	5.02%	-0.70%	3.55
Terminal	17,927.4	14,295.4	20.26%	37.15%	48.07%	-5.88
Telecommunication software systems, services and other products	10,346.3	7,186.7	30.54%	43.32%	45.68%	-1.12
Total	**70,263.9**	**47,335.0**	**32.63%**	**16.58%**	**16.52%**	**0.03**
III. By region						
The PRC	32,197.5	21,309.7	33.82%	5.90%	4.65%	0.80
Asia (excluding the PRC)	12,687.9	8,910.3	29.77%	-3.87%	-13.10%	7.45
Africa	10,639.0	5,870.0	44.83%	55.07%	84.05%	-8.68
Europe, Americas and Oceania	14,739.5	11,245.0	23.71%	50.26%	64.95%	-6.79
Total	**70,263.9**	**47,335.0**	**32.63%**	**16.58%**	**16.52%**	**0.03**

2. Indicators for major products accounting for over 10% of the Company operating revenue or operating profit

Unit: RMB in millions

By product	Operating Revenue	Operating cost	Gross profit margin
Carriers' networks	41,990.2	25,852.9	38.43%
Terminal	17,927.4	14,295.4	20.26%
Telecommunication software systems, services and other products	10,346.3	7,186.7	30.54%

3. Breakdown of the Company's assets

Unit: RMB in millions

	2010		2009		
Item	Amount	As a percentage of total assets	Amount	As a percentage of total assets	Year-on-year increase/ decrease
Total assets	**84,152.4**	**100%**	68,342.3	100%	23.13%
Trade receivables	**17,563.9**	**20.87%**	15,319.2	22.42%	14.65%
Fixed assets	**6,523.5**	**7.75%**	4,714.5	6.90%	38.37%[Note1]
Long-term equity investment	**918.0**	**1.09%**	440.3	0.64%	108.49%[Note2]
Construction in progress	**1,146.7**	**1.36%**	1,332.7	1.95%	(13.96%)
Short-term loans	**6,578.4**	**7.82%**	4,906.5	7.18%	34.08%[Note3]
Inventory	**12,103.7**	**14.38%**	9,324.8	13.64%	29.80%
Investment properties	**—**	**—**	—	—	—
Long-term loans	**1,719.3**	**2.04%**	2,396.4	3.51%	(28.25%)

Note 1: The balance of fixed assets increased by 38.37%, year-on-year, mainly as a result of the commissioning of the research and development bases of the Company in various regions.

Note 2: The increase in the balance of long-term equity investments by 108.49%, year-on-year, mainly reflected the increase in shareholders' equity of an associate attributable to the Company as a result of proceeds received from the listing of such associate by way of new issue.

Note 3: The balance of short term loans increased by 34.08%, year-on-year, reflecting mainly increased borrowings to meet short term fund requirements of the Company.

Report of the Board of Directors

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

Item	As a percentage of total profit 2010	2009	Year-on-year change (percentage points)
Operating profit	**59.39%**	62.08%	(2.69)
Expenses for the period	**446.21%**	486.61%	(40.40)Note1
Investment gains	**11.40%**	0.36%	11.05
Non-operating income and expenses, net	**40.61%**	37.92%	2.69

Note 1: The decrease in expenses as a percentage of total profit for the period by 40.40% mainly reflected growth in total profit attributable to increased investment gains generated from the listing of Nationz Technologies and stronger growth in non-operating revenue.

Unit: RMB in millions

Item	2010	2009	Year-on-year change
Selling and distribution expenses	**8,755.0**	7,044.4	24.28%
General and administrative expenses	**2,410.3**	2,567.9	(6.14%)
Finance expenses	**1,198.5**	784.7	52.73%Note1
Income tax	**883.7**	629.1	40.47%Note2

Note 1: The increase in finance expenses by 52.73% mainly reflected translation losses recorded for the year as opposed to translation gains recorded for the previous year, both as a result of exchange rate fluctuations.

Note 2: The increase in income tax by 40.47%, year-on-year, mainly reflected the increase in pre-tax profit as well as the profit of certain subsidiaries.

5. *Breakdown of cash flow*

Unit: RMB in millions

Item	2010	2009	Year-on-year change
Net cash flow from operating activities	**941.9**	3,729.3	(74.74%)Note1
Net cash flow from investing activities	**(3,112.6)**	(2,301.1)	(35.27%)Note2
Net cash flow from financing activities	**3,037.7**	1,287.2	135.99%Note3

Note 1: The decrease in cash flow from operating activities by 74.74%, year-on-year, mainly reflected the increase in cash paid for the purchase of goods and services and other cash payments relating to operating activities.

Note 2: The decrease in cash flow from investing activities by 35.27%, year-on-year, mainly reflected the increase in cash paid for the purchase of fixed assets, intangible assets and other long-term assets.

Note 3: The increase in cash flow from financing activities by 135.99%, year-on-year, mainly reflected the increase in proceeds from the placing of new H shares and the exercise of A share warrants.

6. *Business operations and results of principal subsidiaries*

(1) Details of the operations of the principal subsidiaries of the Company are set out as follows:

Name of subsidiary	Registered capital	Percentage of shareholding	Scope of business	Total assets (in RMB million)	Net assets (in RMB million)	Revenue from principal operations (in RMB million)	Profit from principal operations (in RMB million)	Net profit (in RMB million)
Zhongxing Software	RMB50 million	98%	Development, production and sale of telecommunications system drivers, software for service-based businesses and provision of related technical consultancy services	13,395.4	5,979.7	9,691.1	9,363.6	2,609.4
ZTE HK	HKD500 million	100%	Sales of products, purchase of original parts and ancillary equipment; technology development and transfer, training and consultation; investment and financing	10,177.0	1,220.3	6,721.7	1,156.0	223.7
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	2,706.7	592.4	3,047.2	1,046.4	439.7
ZTE Kangxun	RMB50 million	90%	Production of electronic products and related parts (other than restricted items)	17,625.0	2,224.3	38,549.1	398.8	896.4
Xi'an Xian Zhongxing New Software Company Limited	RMB600 million	100%	Development of software for communications service operations	1,546.5	812.3	1,272.5	945.3	509.9

Nationz Technologies, Inc., an associate of the Company, was listed on the ChiNext of Shenzhen Stock Exchange on 30 April 2010 by way of an initial public offering of shares. The reduction of the Company's shareholdings in Nationz Technologies, Inc. as a result of its listing was deemed as disposal of equity interests and an investment gain of RMB440.32 million was recognised as a result. Other than the above, 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 IV and Note V.12 "Long-term Equity Investments" to the financial report prepared under PRC ASBEs.

Report of the Board of Directors

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. The Group has been consolidating its research and development platform with increased investments and enhanced parallel development since 2008. In 2009 and 2010, the systems concerned were further optimised to strengthen project operation, providing strong assurance for the swift development of the Group's business.

The objective of the Group is to drive overall technological progress of the industry and contribute to China's development into a leading telecom power through its own efforts in proprietary innovations. Proprietary product innovation remains the most important driver for the Group's growth. 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 over 20,000 staff. In 2010, the Group continued to advance platform construction and strengthen its capabilities in core technologies. Thanks to the construction and advancement of the ZXSDR Platform, UPP Platform, V4 Platform and ATCA Platform, the development and application of integrated solutions such as multiple wireless network amalgamation, Internet of Things, 3 Networks' Integration, Cloud Computing and telecom capacity sharing, as well as breakthroughs in proprietary chips such as high-end router chips and TD-SCDMA/GSM dual-mode end chips, the competitive edge of ZTE has been significantly enhanced in the areas of wireless access, carriers' networks, core networks, PON, services and software and handsets.

In 2010, the Group received the "Class II National Award for Technological Progress" for three projects: "research and application of key technologies for mobile communications SDR", "research and application of multi-media technologies based on amalgamation of hetero-structured networks", "research, fabrication and application of standards and equipment for next-generation SDH multi-service transmission platform"; and "Class II National Award for Technological Invention" for two projects: "technology for access capacity expansion and distance extension of SOA-based PON" and "technology and application of optical layer networking based on smart channel organization and shared protection methods". The "ZTE Forum for Cooperation of Enterprises, Academies and Research Institutes in Telecommunications" has been formed in active support of the government's call for cooperation among enterprises, academies and research institutes. Leading colleges and research institutes specializing in the area of domestic communications are being invited to join and the Forum currently has 24 members. The scale of cooperative projects among members has been expanding at an annual rate of over 50% as members embark in extensive cooperation in the area of communications technologies.

In 2010, the Group received approval from the Ministry of Science and Technology to build a National Key Laboratory for Mobile Network and Mobile Multi-media Technologies and was designated the principal entity undertaking the "technological foundation for network communication and digital multi-media" under the National 973 Project. The Group also undertook more than 20 major technology research projects designated by the government, including "new-generation broadband wireless mobile telecom net," "core electronic components, high-end general chips and base software products". We were also charged with the research, development and industrialization of the National 863 Project, the Electronic Development Foundation and the Guangdong-Hong Kong Foundation.

Meanwhile, the Group was engaged in active efforts to advance and improve environment-friendly solutions, as it promoted the building of "green" networks through the use of environment-friendly chips, boards, equipment and structures. The C-RAN project jointly launched with domestic telecom operators featured 67% energy savings. Our emphasis on the building of green networks and the application of environment-friendly technologies was underpinned by the implementation of the green concept of "energy conservation and waste reduction" throughout the entire business process from product design, procurement, production, transportation, application to recycling, ensuring that carriers' networks will be operated as such that energy conservation and waste reduction will be realized to the fullest extent.

9. Major suppliers and customers

Purchases by the Group from its largest supplier amounted to RMB4,906 million in 2010, accounting for 12.25% of the total purchases of the Group for the year, while the purchases made from its five largest suppliers amounted to RMB7,773 million, accounting for 19.41% 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 of the Group are consistent under PRC ASBEs and HKFRSs).

Sales by the Group in 2010 to its largest customer amounted to RMB10,091 million, accounting for 14.36% of the total sales of the Group for the year, while sales to its five largest customers amounted to RMB28,706 million, accounting for 40.85% 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 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 China 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. As at 31 December 2009, the amount invested by the Company in projects utilizing issue proceeds had met the agreed investment amount set out in issued prospectuses (RMB6,550.39 million) and the portion in excess had been funded by the Company's internal resources. For details, please refer to the 2009 Annual Report of the Company and the "Verification report on the Deposit and Application in 2009 of Issue Proceeds of ZTE Corporation" published in newspapers and websites designated for information disclosure on the same date.

The exercise period for "中興 ZXC1" Warrants expired on 12 February 2010. A total of 23,348,590 "中興 ZXC1" Warrants had been exercised, resulting in total proceeds of RMB912 million. In order to increase capital efficiency and to reduce financial expenses, it was considered and approved at the Thirtieth Meeting of the Fourth Session of the Board of Directors of the Company that internal funds previously invested in issue proceed investment projects be replaced with amounts received from the exercise of warrants. For details of the replacement, please refer to the "Announcement of ZTE Corporation on the Replacement of Internal Funds Previously Invested in Issue Proceed Investment Projects with Proceeds from the Issue of Warrants" published in newspapers and websites designated for information disclosure dated 25 March 2010.

Report of the Board of Directors

(2) Significant investments using funds other than issue proceeds

1 Heyuan Hi-tech Development Zone Production, Research and Development Training Base Project

In July 2010, the Company and the Heyuan Hi-tech Development Zone Management Committee ("Heyuan Hi-tech Zone Committee") signed an investment contract in Heyuan, pursuant to which Heyuan Hi-tech Zone Committee approved the investment in and construction of "ZTE Heyuan Production and Research and Development Training Base" (the "Investment") in the Heyuan Hi-tech Industry Development Zone. The Investment was considered and passed at the Sixth Meeting of the Fifth Session of the Board of Directors of the Company held on 15 July 2010 and the Second Extraordinary General Meeting 2010 of the Company held on 10 September 2010. The total amount of the Investment was approximately RMB10 billion and the scheduled construction period of the project was 6 years. The Company will fund investments in the project with its internal resources.

At the Eleventh Meeting of the Fifth Session of the Board of Directors of the Company held on 12 October 2010, the "Resolution on the Establishment of ZTE (Heyuan) Company Limited (中興通訊（河源）有限公司)" was considered and passed, whereby it was approved that the Company would make a capital contribution of RMB500 million for the incorporation of ZTE (Heyuan) Company Limited, which quota had been included in the total investment amount of RMB10 billion of the "ZTE Heyuan Production, Research and Development Training Base Project" considered and passed at the Second Extraordinary General Meeting 2010 of the Company.

For details, please refer to the "Announcement of External Investment", "Announcement in respect of Resolutions of the Second Extraordinary General Meeting of 2010" and "Announcement of External Investment on the Establishment of ZTE (Heyuan) Company Limited" of the Company dated 16 July 2010, 10 September 2010 and 12 October 2010, respectively.

2 Establishment of ZTE Capital Management Company and Fund Subscription

At the Tenth Meeting of the Fifth Session of the Board of Directors of the Company held on 27 September 2010, the "Resolution of the Company on the Establishment of ZTE Capital Management Company Limited of Shenzhen" and "Resolution of the Company on the Proposed Subscription to ZTE Venture Capital Fund" were considered and passed, whereby approval was given to the Company to invest RMB16.50 million for the establishment of ZTE Capital Management Company Limited jointly with Hekang Investment Management Company Limited of Shenzhen and to invest RMB300 million to subscribe to ZTE Venture Capital Fund. Capital contributions for the aforesaid investments are currently completed. For details, please refer to the "Announcement on External Investment and Connected Transaction" and the "Announcement on Progress of External Investment" of the Company dated 27 September 2010 and 22 November 2010, respectively.

3 Establishment of the Group Finance Company

In order to strengthen the centralised treasury management of the Group and enhance the efficiency of its fund application, it was approved at the Eleventh Meeting of the Fifth Session of the Board of Directors and the Third Extraordinary General Meeting 2010 of the Company, held on 12 October 2010 and 30 November 2010, respectively, that the Company would make a capital contribution of RMB1,000 million (including USD20 million) for the establishment of ZTE Finance Co., Ltd (tentative name which is subject to final approval by the industry and commerce registration department).

On 9 February 2011, the China Banking Regulatory Commission ("CBRC") issued Yin Jian Fu [2011] No. 41 Document "Approval Reply of CBRC Concerning the Establishment of A Group Finance Company by ZTE Corporation" (銀監複[2011]41號文件《中國銀監會關於中興通訊股份有限公司籌建企業集團財務公司的批復》), granting approval to the establishment of a group finance company by the Company. The Company is required to complete the establishment within 6 months from the date of approval reply, namely 31 January 2011. During the period of establishment, the capital amount, staffing and place of business of the proposed finance company should be confirmed, while the formulation of the articles of association, rules and regulations for its intended businesses and internal risk control system should also be completed. After completion of the establishment, the Company will submit the application materials for commencement of business to CBRC in accordance with relevant provisions of the "Rules for the Administration of Group Finance Companies" (《企業集團財務公司管理辦法》) and the "Implementation Rules for Administrative Permissions of Non-bank Financial Institutions" (《非銀行金融機構行政許可事項實施辦法》).

For details, please refer to the "Announcement of Resolutions of the Eleventh Meeting of the Fifth Session of the Board of Directors", "Announcement of External Investment — the Establishment of ZTE Finance Co., Ltd", "Announcement in respect of the Resolutions of the Third Extraordinary General Meeting of 2010" and "Announcement on Approval Received for the Establishment of A Group Finance Company" dated 12 October 2010, 30 November 2010 and 15 February 2011, respectively.

11. *There were no changes in the accounting policies, accounting estimates, auditing methods or adjustments of significant 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

Item	Opening balance	Gains/losses arising from fair value change for the period	Cumulative 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	—	123,778	—	—	123,365
Including: derivative financial assets	—	123,778	—	—	123,365
2. Available-for-sale financial assets	—	—	—	—	—
Sub-total of financial assets	—	123,778	—	—	123,365
Financial liabilities Note1	—	(40,181)	—	—	(40,139)
Investment properties	—	—	—	—	—
Productive living assets	—	—	—	—	—
Others	—	—	—	—	—
Total	**—**	**83,597**	**—**	**—**	**—**

Note 1: Financial liabilities comprised derivative financial liabilities.

Report of the Board of Directors

(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

Item	Opening balance	Gains/losses arising from fair value change for the period	Cumulative 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	—	8,360	—	—	7,947
Including: derivative financial assets	—	8,360	—	—	7,947
2. Loans and receivables	16,929,417	—	—	(253,103)	16,717,900
3. Available-for-sale financial assets	7,112	—	—	—	47,503
4. Held-to-maturity investments	—	—	—	—	—
Sub-total of financial assets	16,936,529	8,360	—	(253,103)	16,773,350
Financial liabilities	5,657,676	(40,181)	—	—	6,360,143

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 2010 was as follows:

(1) As at 31 December 2010, 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 and shareholders' interests. Neither the controlling shareholder of the Company nor its subsidiaries nor other connected parties have appropriated the Company's funds. As required by China Securities Regulatory Commission, the Independent Directors of the Company have reviewed the Company's transactions against the "Notice regarding Certain Issues 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.

(2) As at 31 December 2010, guarantees provided by the Company amounted to approximately RMB623,239,200 on a cumulative basis, accounting for 2.70% of the Company's audited shareholders' equity attributable to the parent company for 2010. Third-party guarantees provided by the Company (excluding guarantees on behalf of subsidiaries) during the reporting period of 2010 were nil. As at the end of the reporting period of 2010, the balance of third-party guarantees (excluding guarantees on behalf of subsidiaries) amounted to approximately RMB69,868,100, accounting for 0.3% of the Company's audited shareholders' equity attributable to the parent company. There were no guarantees provided on behalf of subsidiaries during the reporting period. The balance of third-party guarantees provided on behalf of subsidiaries as at the end of the reporting period of 2010 amounted to approximately RMB573,239,200. For details of the third-party guarantees of the Company, please refer to the section headed "XII (12) Third-party guarantees of the Company". The information on guarantees disclosed in the 2010 Annual Report of the Company was true and accurate, and the Company had not been engaged in any guarantees or connected-party guarantees in breach of relevant regulations.

(3) As at 31 December 2010, there were no evident indications that the Company might have incurred guarantee liabilities as a result of default on debts by any guaranteed parties under the Company's third-party guarantees.

(4) In accordance with the CSRC Notice regarding Third-party Guarantees Provided by Listed Companies, respective Listing Rules of domestic and overseas stock exchanges and other pertinent regulations, the Company has specified the scope of authority for the Board of Directors and the general meeting in approving third-party guarantees in the Articles of Association, and has formulated the ZTE Measures for the Administration of Third-party Guarantees, in which the approval process of third-party guarantees to be made by the Company and its subsidiaries is specifically provided for to regulate third-party guarantees of the Company and effectively control risks arising therefrom.

(5) 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), 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 the Articles of Association, and are of the opinion that the decision making procedures for third-party guarantees of the Company during the reporting period are in compliance with the Articles of Association and relevant regulations mentioned above, and there has been no infringement on the interests of the Company and its shareholders.

Report of the Board of Directors

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

(1) During 2010, the Board of Directors of the Company convened 18 meetings, the details of which are set out as follows:

Session	Date of meeting	Mode of meeting	Date of announcing resolutions of meeting	Newspaper for publication of announcements
32nd Meeting of the Fourth Session	5 February 2010	Video conference	6 February 2010	China Securities Journal, Securities Times, Shanghai Securities News
33rd Meeting of the Fourth Session	22 February 2010	Voting in written communication	23 February 2010	
34th Meeting of the Fourth Session	23 March 2010	Voting in written communication	25 March 2010	
1st Meeting of the Fifth Session	30 March 2010	On-site meeting	31 March 2010	
2nd Meeting of the Fifth Session	8 April 2010	On-site meeting	9 April 2010	
3rd Meeting of the Fifth Session	27 April 2010	Video conference	28 April 2010	
4th Meeting of the Fifth Session	20 May 2010	Video conference	21 May 2010	
5th Meeting of the Fifth Session	30 June 2010	Voting in written communication	1 July 2010	
6th Meeting of the Fifth Session	15 July 2010	Voting in written communication	17 July 2010	
7th Meeting of the Fifth Session	22 July 2010	Video conference	24 July 2010	
8th Meeting of the Fifth Session	19 August 2010	On-site meeting	20 August 2010	
9th Meeting of the Fifth Session	19 August 2010	Voting in written communication	24 August 2010	
10th Meeting of the Fifth Session	27 September 2010	Video conference	28 September 2010	
11th Meeting of the Fifth Session	12 October 2010	Video conference	13 October 2010	
12th Meeting of the Fifth Session	27 October 2010	Video conference	Note 1	
13th Meeting of the Fifth Session	26 November 2010	Voting in written communication	30 November 2010	
14th Meeting of the Fifth Session	3 December 2010	Voting in written communication	4 December 2010	
15th Meeting of the Fifth Session	27 December 2010	Voting in written communication	28 December 2010	

Note 1: The resolution to approve the "2010 Third Quarterly Report of the Company" was considered and passed at the Twelfth Meeting of the Fifth Session of the Board of Directors. As it was the only resolution considered at this meeting, it was exempted from announcement pursuant to the notice of the Shenzhen Stock Exchange. For details of the Board resolution, please refer to the "2010 Third Quarterly Report of the Company" published by the Company on 27 October 2010.

(2) Board implementation of resolutions adopted by the general meeting

1. Pursuant to the relevant resolution passed at the 2009 Annual General Meeting, the Board of Directors of the Company implemented the 2009 profit distribution and capitalisation of capital reserve plans, namely the payment of RMB3 for every 10 shares (before tax) in cash or an aggregate of approximately RMB560 million and the creation of 5 shares for every 10 shares on the basis of 1,867,869,027 shares (being the Company's total share capital of 1,911,154,456 shares as at 31 December 2009 less 43,285,429 restricted shares under the Share Incentive Scheme). The share capital was increased by a total of 955,577,228 shares and the total share capital of the Company after the increase was 2,866,731,684 shares (comprising 2,342,077,146 A shares and 524,654,538 H shares).

2. The Board of Directors of the Company implemented the Phase I Share Incentive Scheme of the Company pursuant to relevant resolutions of the First Extraordinary General Meeting of 2007 and confirmed, at the Fourth Meeting of the Fifth Session of the Board of Directors of the Company held on 20 May 2010, that 3,239 Scheme Participants under the First Award of the Phase I Share Incentive Scheme had fulfilled conditions for the Second Unlocking of Subject Shares under the Phase I Share Incentive Scheme. The Second Unlocking of the Subject Shares granted under the First Award of the Phase I Share Incentive Scheme was completed on 4 June 2010.

   At the Thirteenth Meeting of the Fifth Session of the Board of Directors of the Company held on 26 November 2010, it was confirmed that 763 Scheme Participants under the Second Award of the Phase I Share Incentive Scheme had fulfilled conditions for the First Unlocking of Subject Shares under the Phase I Share Incentive Scheme. The First Unlocking of the Subject Shares granted under the Second Award of the Phase I Share Incentive Scheme was completed on 15 December 2010. For details please refer to "XII (6) progress of the Phase I Share Incentive Scheme of the Company during the Reporting Period" in this report.

(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. Details of the work of the Audit Committee in 2010 are set out in the section headed "CORPORATE GOVERNANCE REPORT" in chapter VII of this annual report.

2. Issue of three review opinions on the 2010 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 first 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 2010; key financial indicators calculated on the basis of data from the 2010 management accounts were consistent with preliminary judgements made by the Committee members based on known facts and comparison with financial indicators of 2010. The passing of the financial statements to the PRC and Hong Kong auditors for auditing was approved.

Report of the Board of Directors

Next, 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 2010 annual report was in compliance with the new accounting standards for business enterprises and their practice notes.

Finally, the Audit Committee reviewed the audit opinion of the PRC and Hong Kong auditors and the audited financial report of the Company for 2010. The Audit Committee was of the view that the report was a true representation of the financial conditions of the Company in 2010 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 before January 2011 and submitted such timetable to Shenzhen CSRC in early January 2011 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 2010 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 2010 to March 2011. 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 2010 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 2011.

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 reviewed the derivative investments of the Company and made suggestions for improvements of the Company's system for risk control and information disclosure in respect of derivative investments.

(4) Summary report of the Remuneration and Evaluation Committee

1. Details of the work of the Remuneration and Evaluation Committee in 2010 are set out in the section headed "CORPORATE GOVERNANCE REPORT" in chapter VII of 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 2010 annual report of the Company is true and accurate.

(5) Summary report of the Nomination Committee

Details of the work of the Nomination Committee in 2010 are set out in the section headed "CORPORATE GOVERNANCE REPORT" in chapter VII of this annual report .

(6) Statement of the Board of Directors on Internal Control Responsibility

The Board of Directors of the Company is of the view that the Company has fundamentally established a comprehensive internal control system in accordance with relevant laws and regulations and regulatory documents. The internal control system of the Company has taken into account five basic elements of internal control: internal environment, risk assessment, business controls, information and communications and internal supervision. The Company has exercised stringent, adequate and effective internal control in respect of subsidiaries, connected transactions, third-party guarantees, significant investments, information disclosure, and all systems have been adequately and effectively implemented. The operation of the Company's internal control is effective without any significant defects in its mechanism and system as a whole or any significant deviations in implementation.

Therefore, the Board of Directors is of the view that the Company has not identified any significant defects in the design or implementation of internal control in 2010. The Company's self-assessment on its internal control is in line with the actual conditions.

Report of the Board of Directors

17. *Profit distribution or capitalisation of capital reserve*

(1) *Proposal for profit distribution and capitalisation of capital reserve for 2010*

Net profit of the Company for the year 2010 calculated in accordance with PRC ASBEs amounted to RMB323,088,000. Together with undistributed profit of RMB2,100,753,000 carried forward at the beginning of the year, profit available for distribution amounted to RMB2,423,841,000. After deducting statutory surplus reserves of RMB32,309,000 and the difference of RMB7,936,000 between the actual amount of dividend paid in the previous year and the amount of proposed dividend (see Note V.35 on page 216), profit available for distribution to shareholders amounted to RMB2,383,596,000. Profit of the Company for the year 2010 calculated in accordance with HKFRSs amounted to RMB302,899,000. Together with undistributed profit of RMB2,092,341,000 carried forward at the beginning of the year, profit available for distribution amounted to RMB2,395,240,000. After deducting statutory surplus reserves of RMB32,309,000 and the difference of RMB7,936,000 between the actual amount of dividend paid in the previous year and the amount of proposed dividend (see Note 39 on page 350), profit available for distribution to shareholders amounted to RMB2,354,995,000.

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 RMB2,354,995,000. The Board of Directors of the Company has recommended as follows:

Proposed profit distribution for 2010: A cash dividend of RMB3 (including tax) for every 10 shares held will be paid on the basis of the total share capital of the Company as at 17 March 2011 less the number of Subject Shares remaining in lock-up under the Share Incentive Scheme as at the A share record date for the purpose of the 2010 profit distribution (the "Record Date"). As at 17 March 2011, 62,407,186 registered Subject Shares under the Share Incentive Scheme remained in lock-up. In accordance with relevant provisions of the Share Incentive Scheme, restricted shares remaining in lock-up shall not be entitled to the cash dividend. The number of shares entitled to the cash dividend under the 2010 profit distribution proposal will be 2,804,324,498 shares in case the third unlocking of registered Subject Shares granted under the first award of the Share Incentive Scheme (the "Third Unlocking") is not completed by the Record Date, on which basis the 2010 profit distribution plan will be implemented. In case the Third Unlocking is completed by the Record Date, the maximum number of shares to be unlocked in accordance with the Share Incentive Scheme will be 45% of the Subject Shares under the first award, namely 51,680,416 shares, which will be entitled to the cash dividend.

Proposed capitalisation of capital reserve for 2010: The issue of 2 bonus shares for every 10 shares by way of capitalisation of capital reserve. The capitalisation will be based on the total share capital of the Company of 2,866,731,684 shares as at 17 March 2011, and the share capital will be increased by a total of 573,346,336 shares. Fractional shares arising from the implementation of capitalisation of capital reserve will be dealt with in accordance with relevant rules of the stock exchanges and clearing houses of the places of listing of the Company's shares, which may result in small differences between the total amount and number of share capital transferred from the capital reserve after the implementation of the proposal of capitalisation of capital reserve and the aforesaid estimated amounts.

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 per 10 shares.

(2) Implementation of cash dividend policy during the reporting period

The Company's 2009 profit distribution and capitalisation of capital reserve plans were implemented on 24 June 2010. For details please refer to the "Announcement of ZTE Corporation on Equity Distribution for 2009" of the Company published in newspapers and websites designated for information disclosure on 18 June 2010.

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

Year	Cash distribution amount (before tax) (RMB ten thousand)	Net profit attributable to shareholders of the listed company in the consolidated statements (RMB ten thousand)	Cash distribution as a percentage of net profit attributable to shareholders of the listed company in the consolidated statements	Net profit of the year available for distribution (RMB ten thousand)
2009	56,036.10	245,812.10	22.80%	264,476.60
2008	40,299.90	166,019.90	24.27%	239,573.40
2007	23,988.00	125,215.80	19.16%	165,775.20
Accumulated cash distribution in the past three years as a percentage of average annual profit available for distribution (%)			53.89%	

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 exposures for 2011

1. Business outlook for 2011

The Company anticipates a complex market environment with challenges and opportunities in 2011. In the domestic market, optimisation and upgrade of existing networks, network expansion, and high-end network construction will be some of the major drivers for carriers' investments. Elsewhere in the world, the development of mobile broadband will stimulate investment in relevant equipment and terminals, while new opportunities will abound in the global deployment of LTE networks. Changing scenarios will continue to emerge in competition among world communications equipment manufacturers. The Company's product solutions are now ready to compete in the international market, where we are now in a crucial start-up period for cooperation with high-end carriers.

2011 marks the beginning of a crucial period of development for the Company. We will seek to further realise our potentials and focus on meeting market demands and adding value for customers. Our strategy to target large countries and mainstream carriers will be enhanced as we eye diversification to the government enterprise and servicing segments of the market, striving for steady increase in market shares on the basis of volume growth in sales to mainstream carriers. The Company will incorporate innovative thinking in its business practices, with a special emphasis on optimising logistical processes and strengthening delivery capabilities. All in all, the Company is confident that it will continue to enjoy stable development under the leadership of the new Board of Directors and senior management.

2. Risk Exposure

(1) Interest rate risk

As the size of the Group's outstanding loans continued to grow, the total amount of interest payments owed by the Group will vary in line with any fluctuations in the loan interest rates determined by the State and the profitability of the Group will be affected as a result.

(2) Foreign exchange risk

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. With a strong emphasis on the research of exchange risk management policies, models and strategies, the Group has adopted natural hedging to manage its foreign exchange risks and facilitated the matching of its assets and liabilities denominated in foreign currencies through the choice of different currencies for various businesses and spot currency trading.

(3) Credit risk

The Group provides one-stop communications solutions to its customers. With the swift expansion of its business, the Group is serving a large customer base with differing credit status, and its business will inevitably be affected by the varied credit profiles of these customers.

(4) Country risk

Under the new global economic and financial order, the Group will continue to be exposed to debtors' risks, trade protection, political risks or even warfare or the succession of political regimes in countries where the Group's projects are operated. As such, a very high level of operational and risk control capabilities is required.

(IV) Planning and implementation scheme for the development and improvement of our internal control system in 2011

I. Planning for internal control development

The Company's internal control for 2011 will remain focused on the development of an internal control system for financial reporting and the optimisation of relevant processes. The internal control development work group will conduct a full streamlining of the internal control system of the Company to "reasonably assure true and complete financial reporting and information" mainly in accordance with the business framework stipulated in the 18 Application Guidelines for Corporate Internal Control, with a special emphasis on optimising key processes that "might affect the effectiveness of internal control over financial reporting" to ensure that an unqualified internal control audit report on the Company's internal control of financial reporting for 2011 will be furnished by the independent certified public accountant in 2011. Three stages for the work plan for internal control development are proposed:

(1) Start-up stage

The scope of corporate departments and businesses to be covered by internal control implementation in 2011 was determined and a preliminary internal control implementation plan and scheme was formulated by the internal control project administration office in early 2011. Responsible departments and project team members corresponding to the 18 Internal Control Application Guidelines have been confirmed. The internal control project administration office will convene a project start-up meeting and organise team members to receive training in the Basic Rules for Corporate Internal Control and their supplementary guidelines before 31 March 2011.

(2) Implementation stage

The internal control development work group will sort our the risk types of the Company, develop a risk checklist and develop a risk structure for the Company, establish the mirroring relationship between the key risk exposures and control points set out in the application guidelines and the processes and system documents of the Company, confirm the responsible departments for each of the control points, examine the comprehensiveness of the system and the efficiency of the processes, conduct tests on key risk exposures and control points, propose improvement measures for ensuring the effectiveness of internal control on financial reporting and submit to the internal control project administration office approval and determine the schedule for completing the rectifications before 30 June 2011.

(3) Evaluation and improvement stage

The internal control development work group will, base on the implementation result, complete formulation of internal control manual in relation to the effectiveness of internal control on financial reporting before 31 August 2011. The structure and process optimisation department will be responsible for tracking and reporting of the progress of rectification on a real-time basis and will assist the internal control project administration office to complete inspection and acceptance of the rectification results before 30 September 2011 and to complete the inspection and acceptance of rectifications in respect of deficiencies identified in the internal control self-assessment report before 31 December 2011.

2. Implementation plan for internal control development in 2011

As the 18 Application Guidelines for Internal Control cover the major business processes and key management factors of the Company, any streamlining of internal control will involve a number of business processes across different departments and regimes. Internal control development in 2011 will be conducted on a project basis. Project teams will be formed by members from three levels of the corporate hierarchy, namely the strategic, management and execution levels, who will perform their duties with full efforts to procure internal control development in 2011 in accordance with the Application Guidelines for Internal Control.

Report of the Board of Directors

(V) 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 2010 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 pre-emptive rights that requires the Company to offer new shares to its existing shareholders on a pro-rata basis.

5. Purchase, sale or redemption of shares

Neither the Company nor any of its subsidiaries 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 22 in this annual report.

7. Implementation of the System of Registration of Owners of Insider Information

To regulate the Company's management of insider information, enhance confidential treatment of insider information and safeguard fairness in information disclosure, the Company formulated the System of Registration of Owners of Insider Information in accordance with provisions of relevant laws and regulations including the Company Law, Securities Law, Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange, Measures for the Administration of Information Disclosure by Listed Companies, Guidelines of the Shenzhen Stock Exchange for Fair Information Disclosure by Listed Companies, Securities and Futures Ordinance of Hong Kong and the Hong Kong Stock Exchange Rules, relevant requirements of securities regulatory departments and relevant provisions of the Articles of Association, which was considered and passed at the Thirtieth Meeting of the Fourth Session of the Board of Directors of the Company on 27 October 2009.

During the reporting period, the Company sorted its core information and enhanced management and control through the network and other channels. Concurrent with the submission of regular reports and preliminary results announcements, Forms of Registration of Owners of Insider Information were also voluntarily submitted. Immediately following the issue of the Shen Zheng Ju Fa [2010] No. 361 "Notice on Studying the 'Opinion on Curbing and Preventing Insider Trading in the Capital Markets in accordance with the Law'" by Shenzhen CSRC in late 2010, the Company promptly organised all Directors, Supervisors, members of the senior management and key personnel that might have access to insider information to study the opinion and communicated such opinion to the controlling shareholders of the Company, auditing firms for financial reports and other third parties that might have access to the Company's undisclosed information. During the reporting period, there was no trading in the Company's shares by owners of insider information during sensitive periods.

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

Comprehensive Income Statement	2010	2009
Operating revenue:		
Carriers' networks	**41,990.2**	39,982.3
Terminals	**17,927.4**	13,071.5
Telecommunication software systems, services and other products	**10,346.3**	7,218.8
Total revenue	**70,263.9**	60,272.6
Cost of sales	**(48,599.0)**	(41,667.8)
Gross profit	**21,664.9**	18,604.8
Other income and gains	**2,639.8**	1,723.5
Research and development costs	**(7,092.0)**	(5,781.6)
Selling and distribution costs	**(8,890.2)**	(7,157.8)
Administrative expenses	**(2,524.0)**	(2,735.2)
Other expenses	**(753.8)**	(603.2)
Profit from operating activities	**5,044.7**	4,050.5
Finance costs	**(728.6)**	(751.7)
Share of profit and loss of associates	**44.1**	26.0
Profit before tax	**4,360.2**	3,324.8
Tax	**(883.7)**	(629.1)
Net profit	**3,476.5**	2,695.7
Attributable to: Minority interests	**(226.3)**	(237.6)
Attributable to: Shareholders of parent company	**3,250.2**	2,458.1
Other comprehensive income	**41.4**	8.6
Comprehensive income	**3,517.9**	2,704.3
Dividend	**841.3**	552.4
Earnings per share — Basic	**RMB1.17**	RMB0.93
— Diluted	**RMB1.15**	RMB0.90

REVENUE ANALYSED BY PRODUCT AND GEOGRAPHIC REGION

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

Unit: RMB in millions

Product segment	2010 Revenue	2010 As a percentage of operating revenue	2009 Revenue	2009 As a percentage of operating revenue
Carriers' networks	**41,990.2**	**59.8%**	39,982.3	66.3%
Terminals	**17,927.4**	**25.5%**	13,071.5	21.7%
Telecommunication software systems, services and other products	**10,346.3**	**14.7%**	7,218.8	12.0%
Total	**70,263.9**	**100.0%**	60,272.6	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 Europe, America and Oceania for the periods indicated:

Unit: RMB in millions

Region	2010 Revenue	2010 As a percentage of operating revenue	2009 Revenue	2009 As a percentage of operating revenue
The PRC	**32,197.5**	**45.8%**	30,404.3	50.4%
Asia (excluding the PRC)	**12,687.9**	**18.1%**	13,198.6	21.9%
Africa	**10,639.0**	**15.1%**	6,860.6	11.4%
Europe, America and Oceania	**14,739.5**	**21.0%**	9,809.1	16.3%
Total	**70,263.9**	**100.0%**	60,272.6	100.0%

The Group reported RMB70,263.9 million in operating revenue for 2010, a 16.6% growth as compared to last year. Our international business sustained stable growth, with operating revenue growing 27.4% to RMB38,066.4 million. Analysed by product, significant year-on-year growth was reported for terminals, and telecommunications software systems, services and other products.

The increase in operating revenue from the Group's carriers' networks segment was attributable mainly to growth driven by overseas carriers' networks, with optical communications systems, wireline switch and access systems and WCDMA system equipment commanding significant contributions.

The increase in operating revenue from the Group's terminal product segment was driven mainly by growth in sales of data cards in overseas markets, GSM handsets in Europe and America and 3G handsets in the domestic market.

Management Discussion and Analysis

The increase in operating revenue from the Group's telecommunication software systems, services and other products was mainly driven by the increase in sales of fixed terminal products and video and network terminals in Europe and America and the increase in service income in Asia.

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

	2010		2009	
Product segment	Cost of sales	As a percentage of segment revenue	Cost of sales	As a percentage of segment revenue
Carriers' networks	**26,931.3**	**64.1%**	26,725.2	66.8%
Terminals	**14,288.8**	**79.7%**	9,770.9	74.7%
Telecommunication software systems, services and other products	**7,378.9**	**71.3%**	5,171.7	71.6%
Total	**48,599.0**	**69.2%**	41,667.8	69.1%

Unit: RMB in millions

	2010		2009	
Product segment	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Carriers' networks	**15,058.9**	**35.9%**	13,257.1	33.2%
Terminals	**3,638.6**	**20.3%**	3,300.6	25.3%
Telecommunication software systems, services and other products	**2,967.4**	**28.7%**	2,047.1	28.4%
Total	**21,664.9**	**30.8%**	18,604.8	30.9%

Cost of sales of the Group for 2010 increased 16.6% as compared to last year to RMB48,599.0 million. The Group's overall gross profit margin of 30.8% was 0.1 percentage point lower as compared to last year, reflecting mainly the decline in the gross profit margin of terminals.

Cost of sales for the Group's carriers' networks amounted to RMB26,931.3 million, a 0.8% increase as compared to last year. The gross profit margin for carriers' networks was 35.9% versus 33.2% for last year, reflecting higher gross profit margins for wireline switch and access systems.

Cost of sales for the Group's terminal products amounted to RMB14,288.8 million, increasing by 46.2% as compared to last year. Gross profit margin for the Group's terminal segment was 20.3%, versus 25.3% for last year. The decline in gross profit margin for the terminal segment was attributable mainly to the increase in sales of data cards, which had a lower gross profit margin, as a percentage of the total sales of the terminal segment, as well as to the decline in gross profit for CDMA terminal products.

Cost of sales for the Group's telecommunication software systems, services and other products amounted to RMB7,378.9 million, increasing by 42.7% compared to last year. The relevant gross profit margin was 28.7%, compared to 28.4% for last year. The slight gain in gross profit margin was mainly attributable to increased revenue contributions from video and network terminals, which also commanded higher gross profit margin for the year under review.

OTHER INCOME AND GAINS

Other income and gains of the Group for 2010 amounted to RMB2,639.8 million, representing a 53.2% growth compared to RMB1,723.5 million for 2009. The increase was attributable mainly to the increase in value-added tax rebates for software products, as well as the recognition of investment gains arising from deemed disposal of equity investments, as the percentage of our shareholdings in Nationz Technologies, Inc., an associate, was reduced following its listing.

RESEARCH AND DEVELOPMENT COSTS

The Group's research and development costs for 2010 increased by 22.7% to RMB7,092.0 million from RMB5,781.6 million for 2009, and grew slightly from 9.6% in 2009 to 10.1% as a percentage of operating revenue, reflecting mainly increased investments by the Company in the research and development of core networks, service products and general mobile communication systems.

SELLING AND DISTRIBUTION COSTS

The Group's selling and distribution costs for 2010 increased by 24.2% to RMB8,890.2 million from RMB7,157.8 million for 2009, or from 11.9% to 12.7% as a percentage of operating revenue, as the Company increased its investments in overseas market development.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group for 2010 decreased by 7.7% to RMB2,524.0 million, as compared to RMB2,735.2 million for 2009, or from 4.5% to 3.6% as a percentage of operating revenue, reflecting mainly the Company's strengthened efforts in cost control.

OTHER EXPENSES

Other expenses of the Group for 2010 increased by 25.0% to RMB753.8 million, as compared to RMB603.2 million for 2009. The increase mainly reflected exchange losses under "Other expenses" in 2010, versus exchange gains for 2009 presented under "Other income and gains."

PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities for 2010 increased by 24.5% to RMB5,044.7 million, as compared to RMB4,050.5 million for 2009, while the operating profit margin grew from 6.7% for 2009 to 7.2% for 2010, primarily as a result of expanded business scale and the increase in other income and gains.

FINANCE COSTS

Finance costs of the Group for 2010 decreased by 3.1% to RMB728.6 million compared to RMB751.7 million for 2009.

Management Discussion and Analysis

TAX

The Group's income tax expense for 2010 was RMB883.7 million, which was 40.5% higher as compared to RMB629.1 million for 2009, reflecting mainly the 31.1% growth in pre-tax profit for 2010 over 2009 coupled with a higher effective tax rate of 20.3% for 2010, as compared to 18.9% for 2009, mainly as a result of rapid profit growth of certain subsidiaries which were subject to higher tax rates.

PROFIT ATTRIBUTABLE TO MINORITY INTERESTS

The Group's minority interests for 2010 amounted to RMB226.3 million, which was 4.8% lower as compared to RMB237.6 million for 2009. Minority interests decreased from 8.8% for 2009 to 6.5% for 2010 as a percentage of net profit before minority interests, reflecting mainly reduced profit for subsidiaries with a higher level of minority interests.

OTHER COMPREHENSIVE INCOME

Other comprehensive income of the Group for 2010 increased by 381.4% to RMB41.4 million, compared to RMB8.6 million for 2009. The increase was mainly attributable to gains arising from the translation of financial statements denominated in foreign currencies.

DEBT-EQUITY RATIO AND THE BASIS OF CALCULATION

Debt-equity ratio is calculated by dividing interest-bearing liabilities by the sum of interest-bearing liabilities and equity (including minority interests). The Group's debt-equity ratio for 2010 was 34.9%, decreasing by 6.9 percentage points as compared to 41.8% for 2009. The decrease was mainly attributable to the increase in shareholders' equity as a result of the placing of new H shares and the exercise of A share warrants.

LIQUIDITY AND CAPITAL RESOURCES

In 2010, 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 2010 amounted to RMB14,905.1 million.

CASH FLOW DATA

Unit: RMB in millions

	2010	2009 (restated)
Net cash inflow from operating activities	**227.8**	3,577.4
Net cash outflow from investing activities	**(3,649.2)**	(3,189.1)
Net cash inflow from financing activities	**4,288.5**	2,327.1
Net increase in cash and cash equivalents	**867.1**	2,715.4
Cash and cash equivalents at year-end	**14,905.1**	14,075.8

OPERATING ACTIVITIES

The Group had a net cash inflow from operating activities of RMB227.8 million for 2010 compared to RMB3,577.4 million for 2009, reflecting year-on-year increase of cash outflow for purchases of goods and services by RMB9,130.7 million mainly as a result of expanded sales, increase of cash outflow for payments made to and on behalf of employees by RMB1,779.3 million, increase of tax payment by RMB1,150.2 million, increase of cash payments relating to operating activities by RMB2,123.6 million, coupled with increase of cash inflow for sales and the provision of services by approximately RMB9,646.5 million and the increase of cash inflow from tax rebates by approximately RMB1,537.4 million.

INVESTING ACTIVITIES

The net cash outflow from the Group's investment activities for 2010 was RMB3,649.2 million compared to a net cash outflow of RMB3,189.1 million for 2009. Cash outflow comprised mainly cash payment of RMB1,898.0 million for the construction of property and plant and the purchase of equipment and cash payment of RMB1,169.2 million for the acquisition of intangible assets and land lease payments.

FINANCING ACTIVITIES

The Group's net cash flow from financing activities for 2010 was RMB4,288.5 million, compared to RMB2,327.1 million for 2009, reflecting mainly proceeds of RMB3,196.8 million received from the placing of new H shares and exercise of A share 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	2010	2009
Purchases of fixed assets and increase of construction in progress payments	**1,898.0**	1,592.1

The Group's capital expenditure in 2010 amounting to RMB1,898.0 million was mainly used for the completion of construction work at ZTE Industrial Park, Nanjing Research and Development Centre, equipment installation and the purchase of machinery and equipment.

INDEBTEDNESS

Unit: RMB in millions

	31 December	
Item	2010	2009
Secured bank loans	**3,597.8**	2,431.4
Unsecured bank loan	**6,022.7**	6,811.5

Management Discussion and Analysis

Unit: RMB in millions

Item	31 December 2010	2009
Short-term bank loans	**7,901.2**	6,846.5
Long-term bank loans	**1,719.3**	2,396.4

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 slight increase in the Group's bank loans in 2010 was mainly attributable to the borrowing of bank loans to provide additional working capital.

CONTRACTUAL OBLIGATIONS

Unit: RMB in millions

	31 December 2010			
Item	Total	Less than one year	Two to five years	More than five years
Bank loans	9,620.5	7,901.2	1,463.4	255.9
Operating lease obligation	1,837.2	449.2	1,062.9	325.1

CONTINGENT LIABILITIES

Unit: RMB in millions

	31 December 2010	
Item	2010	2009
Guarantees given to banks in connection with borrowings to customers	**66.2**	66.8
Guarantees given to banks in respect of performance bonds	**7,324.0**	7,721.6
Total	**7,390.2**	7,788.4

CAPITAL COMMITMENTS

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

Unit: RMB in millions

Item	31 December 2010	
	2010	2009
Land and buildings:		
Contracted, but not provided for	**747.5**	1,240.4
Investment in associates:		
Contracted, but not provided for	**76.2**	18.9
Land and buildings:		
Authorised, but not contracted	**14,227.4**	5,834.0

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 2010 are set out in notes 18, 19 and 20 to the financial statements prepared in accordance with HKFRSs.

PROSPECTS FOR NEW BUSINESS

Details of the prospects for new business of the Group are set out in the "Chairman's Statement" in this Annual Report.

EMPLOYEES

Details of the number of employees, remuneration, remuneration policy, bonus and training programs of the Group as at 31 December 2010 are set out in the sections headed "Directors, Supervisors, Senior Management and Employees" and "Corporate Governance Structure" in this Annual Report.

CHARGES ON ASSETS

Details of charges on the Group's assets as at 31 December 2010 are set out in note 31 to the financial statements prepared under HKFRSs.

PLANS FOR MATERIAL INVESTMENTS OR ACQUISITION OF CAPITAL ASSETS

Details of the Group's material investments and their performance and prospects as at 31 December 2010 are set out section headed "Report of the Board of Directors" in this Annual Report.

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

MARKET RISKS

For details of the Group's exposure to market risks, please refer to the section "IX. (III) Business outlook and risk exposures for 2011".

Report of the Supervisory Committee

(I) SUPERVISORY COMMITTEE MEETINGS

The Supervisory Committee held 8 meetings in 2010, the details of which are as follows:

1. The Nineteenth Meeting of the Fourth Session of the Supervisory Committee of the Company was held on 5 February 2010, at which the "Summary Report on the Work of the Fourth Session of the Supervisory Committee" and the "Resolution on the Re-election of the Supervisory Committee and the Nomination of Candidates for Shareholders' Representative Supervisors" were considered and passed.

2. The First Meeting of the Fifth Session of the Supervisory Committee of the Company was held on 30 March 2010, at which the "Resolution on the Election of the Chairman of the Fifth Session of the Supervisory Committee" was considered and passed.

3. The Second Meeting of the Fifth session of the Supervisory Committee of the Company was held on 8 April 2010, at which the "2009 Work Report of the Supervisory Committee of the Company" was considered and passed and approval was given to table the report at the 2009 Annual General Meeting of the Company for consideration, the "Full Text of the 2009 Annual Report of the Company", "Summary of the 2009 Annual Report and Results Announcement of the Company", "the 2009 Financial Report of the Company as Audited by the PRC and Hong Kong Auditors", "the 2009 Final Financial Accounts of the Company", "Report of the Audit Committee of the Board of Directors on the 2009 Audit of the Company Performed by the PRC and Hong Kong Auditors", "Resolution of the Company on Determining the Audit Fees of the PRC and Hong Kong Auditors of the Company for 2009", "Resolution on the Appointment of the PRC and Hong Kong Auditors of the Company for 2010", "Resolution with respect to the Proposed Application by the Company for Composite Credit Facilities for the Six Months ended 30 June 2010", "Resolution of the Company on the Assets Acquisition and Connected Transaction of Wholly-owned Subsidiary Xi'an Zhongxing New Software Company Limited", "Report of the Company on the Deposit and Application of Issue Proceeds for 2009", "Report on the Proposed Profit Distribution and Capitalisation of Capital Reserve of the Company for 2009" and the "2009 Self-assessment Report on Internal Control of the Company" were considered and approved.

4. The Third Meeting of the Fifth Session of the Supervisory Committee of the Company was held on 27 April 2010, at which the "2010 First Quarterly Report of the Company" and "Resolutions of the Company on Connected Transactions regarding the Lease of Property" were considered and approved.

5. The Fourth Meeting of the Fifth Session of the Supervisory Committee of the Company was held on 20 May 2010, at which the "Resolution of the Company on the Second Unlocking of Subject Shares under the First Award of the Phase I Share Incentive Scheme" and the "Resolution of the Company on the Verification of the Scheme Participant List for the Second Unlocking of the Subject Shares under the First Award of the Phase I Share Incentive Scheme" were considered and passed.

6. The Fifth Meeting of the Fifth Session of the Supervisory Committee of the Company was held on 19 August 2010, at which the "Full Text and Summary of the 2010 Interim Report and the Results Announcement of the Company", "2010 Interim Final Financial Accounts" and "Resolution of the Company on the Continued Purchase of Liability Insurance for Directors, Supervisors and Senior Management" were considered and approved.

7. The Sixth Meeting of the Fifth Session of the Supervisory Committee of the Company was held on 27 October 2010, at which the "2010 Third Quarterly Report of the Company" was considered and approved.

8. The Seventh Meeting of the Fifth Session of the Supervisory Committee of the Company was held on 26 November 2010, at which the "Resolution of the Company on the First Unlocking of Subject Shares under the Second Award of the Phase I Share Incentive Scheme" and the "Resolution of the Company on the Verification of the Scheme Participant List for the First Unlocking of Subject Shares under the Second Award of the Phase I Share Incentive Scheme" were considered and passed.

(II) THE SUPERVISORY COMMITTEE HAS FURNISHED ITS OPINION ON THE COMPANY'S CONDITIONS IN 2010 AS FOLLOWS:

1. The Supervisory Committee has reviewed the self-assessment report on internal control of the Company and is of the view that the self-assessment on internal control of the Company is a true, objective and complete representation of the implementation and effectiveness of the internal control of the Company. The Supervisory Committee expresses no objection to the self-assessment report on internal control of the Company.

2. 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.

3. The Directors and the management of the Company 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.

4. The preparation and review processes for the full text and summary of the 2010 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 2010 annual report of the Company are in compliance with various requirements of regulatory authorities including the CSRC, Shenzhen Stock Exchange and the Hong Kong Stock Exchange. The Supervisory Committee and Supervisors of the Company warrant that the 2010 annual report of the Company does not contain any false information, misleading statements or material omissions, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of its contents.

5. 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 and the offer documents.

6. 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 AND ARBITRATION

During the year, the Group did not incur any material litigation or arbitration. Progress during the year of immaterial litigation and arbitration proceedings incurred prior to and other litigation and arbitration proceedings incurred during the year under review are as follows:

1. 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 RMB11.351 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 RMB15.034 million).

   The case was heard before an arbitration court formed by ICC in Singapore during 25-28 July 2008. The Company was represented at all arbitration sessions. On 23 July 2010, the arbitration court issued its arbitration award on the arbitration fees, legal fees and travel expenses relating to the case and ruled that the Company should pay a total of USD1.323 million (approximately RMB8.762 million) to the said consultant firm. The consultant firm filed an application to the High Court of Delhi in India for the enforcement of the arbitration award on or around 28 September 2010. Currently, the case is in the stage of dissent against enforcement of the arbitration award. Based on the legal opinion furnished by the legal counsel 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.

2. 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 of Customs, the Rawalpindi Collectorate agreed in June 2007 that the fine might be exempted if the Pakistanis Subsidiary made a remedial tax payment of PKR177 million (approximately RMB13,604,000) before 30 June 2007. Such payment had been made by the Pakistanis Subsidiary before 30 June 2007. Subsequently, the Rawalpindi Collectorate of Customs issued a notice to the Pakistanis Subsidiary demanding the payment of an addition tax amount of approximately PKR62 million (approximately RMB4,765,000). The Pakistanis Subsidiary appealed to the Customs Appellate Court against such demand. There was no substantial progress of the case during the reporting period.

   Based on the legal opinion on the dispute furnished by the legal counsel engaged by the Company, the Directors are of the view that the Group has sufficient documentary evidence to defend itself against such tax 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.

3. In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of PKR762.98 million (approximately RMB58,643,000). Meanwhile, the Company instituted a counterclaim 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 PKR328.04 million (approximately RMB25,213,000) 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 the legal counsel engaged by the Company, the case will likely stand a prolonged period of litigation. There was no substantial progress of the case during the reporting period.

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 and operating results of the Group for the current period.

4. Since April 2008, China Construction Fifth Engineering Division Corp., Ltd ("China Construction Fifth Division"), an engineering contractor of the Company, had staged a slowdown in work followed by total suspension, as part of its move to demand the Company to increase the contract amount on the grounds that raw material prices had increased. In September 2008, the Company instituted litigation with the Nanshan District People's Court, pleading for the revocation of the contract and court order of the evacuation of the work sites by the defendant, as well as a penalty payment for work delay in the amount of RMB24,912,000 and damages of RMB11,319,000 payable to the Company. The court handed down the first trial judgement in July 2009, ruling that the contract between the Company and China Construction Fifth be revoked and a penalty payment for work delay in the amount of RMB12,817,000 be payable by China Construction Fifth Division. China Construction Fifth had appealed against the said judgement. As of now, court hearing for the second trial has been completed and the court has ordered trial of the case to be suspended pending the final judgement of the case of China Construction Fifth Division at the Intermediate Court.

   In October and November 2009, the Group further instituted two lawsuits with the Nanshan District People's Court, demanding China Construction Fifth Division to undertake a penalty payment for work delay in the amount of RMB30,615,000 and the payment of RMB39,537,000, representing the amount of work payments in excess of the total contract amount. Currently, the above cases are in the process of trial suspension.

   In July 2009, China Construction Fifth Division instituted a separate lawsuit with the Shenzhen Intermediate People's Court, demanding the Company to make a payment of RMB75,563,000 for raw materials and staff deployment. The said cases are currently under trial and negotiation.

   Based on the legal opinion furnished by the legal counsel engaged by the Company and the existing judgements and current progress of the cases, the directors are of the opinion that the aforesaid cases will not have any material adverse impact on the financial conditions and operating results of the Group.

5. In August 2010, a U.S. company (the "claimant") filed a lawsuit with a district court in California against the Company and its subsidiaries, claiming that the Company and its subsidiaries had infringed the claimant's copyright by downloading and using software developed by the claimant without permission and demanding the Company and its subsidiaries to stop such infringement and compensate the claimant's losses, although the amount of such compensation demanded was not specified in the claim. The Company has appointed a U.S. law firm to represent it in the case and has filed a response to the court. The case is currently undergoing litigation procedures and the two parties to the litigation are also engaged in negotiations for possible out-of-court settlement.

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

   The Company will make timely announcements in respect of any substantial progress of the aforesaid arbitrations and litigations.

Material Matters

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

(III) EQUITY INTERESTS IN OTHER LISTED COMPANIES

Unit: RMB in ten thousands

Stock code	Abbreviated name	Initial investment amount	Percentage of shareholdings in issuer	Carrying value at the end of the period	Gain/loss during the reporting period	Change in owner's equity during the reporting period	Accounting classification	Source of shares
300077	Nationz Technologies	3,000	20%	54,049.47	47,936.70	47,936.70	Long-term equity investment	Initial investment

Note: Nationz Technologies, Inc. was listed on ChiNext of Shenzhen Stock Exchange on 30 April 2010 by way of an initial public offering of shares.

The Group did not hold any equity interests in other listed companies and stakes in financial enterprises such as commercial banks, securities companies, insurances companies, trust companies and future companies, nor did it deal in the shares of other listed companies or was otherwise engaged in securities investment during the reporting period.

(IV) DURING THE REPORTING PERIOD, THE GROUP DID NOT HOLD ANY EQUITY INTERESTS IN COMPANIES PROPOSED FOR LISTING OR NON-LISTED FINANCIAL ENTERPRISES

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

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

The Phase I Share Incentive Scheme of the Company was under normal implementation during the reporting period.

At the Fourth Meeting of the Fifth Session of the Board of Directors of the Company held on 20 May 2010, the "Resolution on the Second Unlocking of Subject Shares under the First Award of the Phase I Share Incentive Scheme" was considered and passed, which confirmed that the conditions for the Second Unlocking of the Subject Shares under the First Award of the Company had been fulfilled and that 3,239 Scheme Participants under the First Award had satisfied conditions for the Second Unlocking of Subject Shares under the Phase I Share Incentive Scheme, and proposed to unlock a total of 26,452,094 shares. For details, please refer to the "Announcement of Resolutions of the Fourth Meeting of the Fifth Session of the Board of Directors" published by the Company on 20 May 2010.

On 3 June 2010, the Company received a "Reply Slip in Acknowledgment of the Application for Unlocking of Shares under Share Incentive Schemes" (《股權激勵股份解除鎖定申請受理回執》) issued by China Securities Depository & Clearing Corporation Limited, Shenzhen Branch. The second unlocking of the Subject Shares in the First Award under the Phase I Share Incentive Scheme was completed, with a total of 26,452,094 Subject Shares being unlocked, accounting for 1.38% of the total share capital of the Company. The date of listing and circulation of Subject Shares subsequent to the release of restrictions was 4 June 2010.

At the Thirteenth Meeting of the Fifth Session of the Board of Directors of the Company held on 26 November 2010, the "Resolution relating to the First Unlocking of Subject Shares under the Second Award of the Phase I Share Incentive Scheme" was considered and passed, which confirmed that the conditions for the First Unlocking of the Subject Shares under the Second Award of the Company had been fulfilled and that 763 Scheme Participants under the Second Award had satisfied conditions for the First Unlocking of Subject Shares under the Phase I Share Incentive Scheme, and proposed to unlock a total of 2,520,957 shares. For details please refer to the "Announcement of Resolutions of the Thirteenth Meeting of the Fifth Session of the Board of Directors" published by the Company on 29 November 2010.

On 13 December 2010, the Company received a "Reply Slip in Acknowledgment of the Application for Unlocking of Shares under Share Incentive Schemes" (《股權激勵股份解除鎖定申請受理回執》) issued by China Securities Depository & Clearing Corporation Limited, Shenzhen Branch. The first unlocking of the Subject Shares in the Second Award under the Phase I Share Incentive Scheme was completed, with a total of 2,520,957 Subject Shares being unlocked, accounting for 0.09% of the total share capital of the Company. The date of listing and circulation of Subject Shares subsequent to the release of restrictions was 15 December 2010.

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 VII to the financial statements prepared under PRC ASBEs.

(VII) H SHARE PLACING OF THE COMPANY

In order to raise additional funds in an efficient manner and broaden the shareholders' base of the Company, the Board of Directors of the Company has resolved, upon careful consideration, in early 2010 to conduct a placing of new H shares. Subsequently, the "Reply of Approval for the Issue of Additional Overseas-listed Foreign Shares by ZTE Corporation" was received from the China Securities Regulatory Commission, pursuant to which approval was granted to the Company to issue no more than 58,294,978 additional H shares with a par value of RMB1 each, all of which should be ordinary shares. On 21 January 2010, the Company allotted and issued a total of 58,294,800 new H shares at a placing price of HK$45.0 per share, or a net placing price of approximately HK$44.5 per share after deduction of commission and expenses in relation to the placing, raising net placing proceeds of approximately HK$2,596 million. The Group intended to apply net placing proceeds after deducting commission and estimated expenses as general working capital. The closing price of the Company's H shares quoted on the Hong Kong Stock Exchange on 13 January 2010 (being the date on which the placing agreement was signed) was HK$51.7 per share. The placees and their respective ultimate beneficial owners were independent third parties. For details, please refer to the relevant announcements of the Company dated 14 January 2010 and 21 January 2010, respectively.

(VIII) UPDATES ON THE BONDS CUM WARRANTS ISSUED BY THE COMPANY

1. Overview of the bonds cum warrants of the Company

The Company issued 40,000,000 bonds with warrants amounting to RMB4 billion in total on 30 January 2008. The bonds have a nominal value of RMB100 each and a total issue amount of RMB4 billion. A coupon interest rate of 0.8% per annum applies to the issue of the bonds cum warrants, accruable from the issue date (30 January 2008).

Material Matters

Three interest payments were made in respect of the bond issue on 30 January 2009, 30 January 2010 and 31 January 2011, respectively. Thereafter interest payments will be made on 30 January of each year. The maturity of the bonds is 30 January 2013.

The ultimate subscriber of each ZTE Bond cum Warrant were issued 1.63 Warrants and a total of 65.20 million warrants were listed on the Shenzhen Stock Exchange on 22 February 2008. The warrants, coded "中興 ZXC1", was valid from 22 February 2008 to 21 February 2010. The last trading day for "中興 ZXC1" was 5 February 2010 (Friday) and trading has been terminated with effect from 8 February 2010 (Monday). Holders of "中興 ZXC1" were entitled to exercise their rights during the last 10 trading days of the valid period, namely on trading days during the period from 1 February 2010 to 12 February 2010, both dates inclusive (the actual exercise period was from 1 to 12 February 2010 because 13 to 19 February 2010 coincided with the Chinese New Year holidays, while 20 to 21 February were double holidays). The adjusted exercise of the warrant on an ex-right and ex-dividend basis was RMB42.394 per share and the adjusted exercise ratio was 1: 0.922, namely the holder of 1 "中興 ZCX1" Warrant was entitled to purchase 0.922 ZTE A share at a price of RMB42.394 per share during the exercise period.

As at the close of trading on 12 February 2010, a total of 23,348,590 "中興 ZXC1" Warrants had been exercised, accounting for 35.81% of the total number of warrants prior to the current exercise. A total of 41,851,410 "中興 ZXC1" Warrants had not been exercised and had lapsed. Following the exercise of the "中興 ZXC1" Warrants, the Company's A share capital increased by 21,523,441 shares, raising proceeds of approximately RMB912 million. For details, please refer to the "Announcement on the Results of the Exercise of the "中興 ZXC1" Warrants and Changes in Shareholding" published by the Company on 23 February 2010.

2. **There was no conversion, redemption or cancellation of the bonds from the Bonds cum Warrants of the Company.**

3. **Top Ten Bond Holders and Their Holdings**

As at 31 December 2010, 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	Petroleum Finance Company Limited	4,129,207	10.32%
3	China Life Insurance Company Limited	3,678,666	9.20%
4	Taikang Life Insurance Co., Ltd.	3,655,350	9.14%
5	Sino Life Insurance Co., Ltd. — Traditional — General Insurance Products	2,422,890	6.06%
6	China National Petroleum Corporation — Corporate Annuity Plan — ICBC	2,103,238	5.26%
7	Ping An Life Insurance Company of China, Ltd.	1,737,880	4.34%
8	Haitong-BOC-Fortis Bank	1,454,222	3.64%
9	PICC Health Insurance Company Limited-Universal Life Insurance	1,400,000	3.50%
10	China Pacific Insurance (Group) Co., Ltd.	1,286,327	3.22%

4. There was no significant change in the profitability, asset conditions and credit standing of China Development Bank, the guarantor for the bonds cum warrants of the Company.

5. Status of liabilities and credit rating changes of the Company and cash arrangements for debt repayments in future years

During the reporting period, the Group's gearing ratio was 70.34% according to the financial statements prepared under PRC ASBEs and there was no change in the Group's credit rating. The bonds cum warrants of the Group have a 5-year life from the date of issue. Interest is paid annually with the interest payment date falling on the anniversary of issue of the bonds cum warrants. The Group 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 Group within 5 trading days following the maturity of the current bonds in issue, at face value plus interest accruable for the final year.

6. Other information

On 17 March 2010, the Company entered into the "Agreement for Tripartite Supervision of Issue Proceeds" with China Development Bank, Shenzhen Branch and Guotai Junan Securities Co., Ltd. in respect of the proceeds from the issue of bonds cum warrants. 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 Thirty-fourth Meeting of the Fourth Session of the Board of Directors of the Company held on 23 March 2010. On 22 March 2010, 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. On 25 January 2011, the Company published the "Announcement of Interest Payment of "中興債1"." On 31 January 2011, bond interest with a total amount of RMB32,000,000 was paid. Details of matters involved have been disclosed in China Securities Journal, Securities Times, Shanghai Securities News and http://www.cninfo.com.cn.

(IX) 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 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 18 March 2011 on the website designated for information disclosure.

(X) SIGNIFICANT CONNECTED TRANSACTIONS OF THE GROUP DURING THE YEAR

1. Significant connected transactions of the Group during the year

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

a. The Group did not conduct any purchases from or sales of goods or provide labour services to any connected parties with amounts exceeding 5% of the latest audited net asset value during the reporting period. Please refer to Note VI to the financial statements prepared under PRC ASBEs for details of connected transactions.

Material Matters

b. During the year, 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, sales of products and property leasing from 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 Company considers trustworthy and cooperative partner as very important and beneficial to the Company'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 2010 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 Connected Transactions," "Announcement Regarding Connected Transactions" and "Announcement Regarding Ongoing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange" and "Announcement Regarding Connected Transactions" published by the Company in China Securities Journal, Securities Times and Shanghai Securities News on 19 April 2007, 24 October 2008, 24 April 2009, 28 October 2009 and 28 April 2010 respectively.) Details are set out in the following table:

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 2010 (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, flexible circuit boards and shelters	Consistent with market prices (as per contract)	Cabinets and accessories: RMB1-RMB31,000 per unit; Cases and accessories: RMB1-RMB17,000 per unit depending on level of sophistication; Distribution frames and accessories: RMB2-RMB150,000 per unit depending on level of sophistication and functional features; Soft circuit boards: RMB0.3-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.	57,138.7	1.43%	Commercial acceptance bill	No
		Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Various products such as communications antennas and radio frequency transmitter	Consistent with market prices (as per contract)	Communication antenna: RMB320-RMB2,500 per piece and radio frequency transmitter, RMB350-4,100 per unit, depending on technical parameters and functional features.	28,406.4	0.71%	Commercial acceptance bill	No
Property leasing	ZTE Corporation and 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)	259[Note 1]	0.54%	Tele-transfer	No
		Zhongxingxin (lessor)	Property located at Jinye Road, Electronics City, Xi'an, Shaanxi with a leased area of 44,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB42.5/sq. m. (inclusive of RMB2.5/sq. m. as monthly management fees for landscape area)	555[Note 2]	1.15%	Tele-transfer	No
		Shenzhen Zhongxing Development Company Limited (lessor)	Property located at 19 Huayuan East Road, Haidian District, Beijing with a leased area of 31,000 sq. m.; with effect from 18 April 2010, the leased area was changed from 31,000 sq. m.; to 32,000 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)	3,885.93	8.08%	Tele-transfer	No
		Chongqing Zhongxing Development Company Limited (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	513.67	1.07%	Tele-transfer	No

Material Matters

Note 1: The previous lease agreement for this property expired on 17 April 2010.

Note 2: At the Second Meeting of the Fifth Session of the Board of Directors of the Company held on 8 April 2010, the "Resolution of ZTE Corporation on the Asset Acquisition and Connected Transaction of Wholly-owned Subsidiary Xi'an Zhongxing New Software Company Limited" was considered and passed, whereby approval was given to Xi'an Zhongxing New Software Company Limited, a wholly-owned subsidiary of the Company, to enter into a real estate transfer agreement with Zhongxingxin, the controlling shareholder of the Company, for the acquisition of the land use rights for a land block situated on the eastern side of Zhangba II Road in Gaoxin District, Xi'an, Shaanxi and the houses and buildings in progress thereon for a consideration of approximately RMB152,900,400. The aforesaid real estate transfer contract is effective from the date on which it is approved by the Board of Directors of the Company. The property lease contract between the Company and Zhongxingxin, signed on 18 April 2007, will be automatically revoked on the date on which the new contract between Xi'an Zhongxing New Software Company Limited and the Zhongxingxin became effective. For details, please refer to the Announcement of Connected Transaction — Acquisition of Assets published by the Company and dated 8 April 2010.

c. Other than the connected transaction in relation to the acquisition of assets by the Company as described in Note 2, the "Resolution of ZTE Corporation on the Asset Acquisition and Connected Transaction of Wholly-owned Subsidiary Xi'an Zhongxing New Software Company Limited" was considered and passed at the Fourteenth Meeting of the Fifth Session of the Board of Directors of the Company held on 3 December 2010, whereby approval was given to Xi'an Zhongxing New Software Company Limited, a wholly-owned subsidiary of the Company, to enter into a real estate transfer agreement with Zhongxingxin, the controlling shareholder of the Company, for the acquisition of the project in construction (including land use rights and construction in progress) at Land Parcel A10, West Side of Tangyan Road South, Gaoxin District, Xi'an for a consideration of approximately RMB91,405,500. For details, please refer to the "Announcement of Connected Transaction — Acquisition of Assets" of the Company dated 3 December 2010. The Group did not enter into any other connected transactions relating to any material acquisition or disposal of assets.

d. At the Tenth Meeting of the Fifth Session of the Board of Directors of the Company held on 27 September 2010, the "Resolution of ZTE Corporation on the Establishment of ZTE Capital Management Company Limited of Shenzhen" was considered and passed, whereby approval was given to the Company to co-invest RMB30 million with connected party Hekang for the establishment of ZTE Capital Management Company Limited, which will engage in the raising and management of venture capital funds. The Company and Hekang shall respectively hold 55% and 45% of the shares of ZTE Capital Management Company Limited. For details, please refer to the "Announcement on External Investment and Connected Transaction" published by the Company on 27 September 2010.

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 RMB523,000.

(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, 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. For details, please refer to the "Announcement on Continuing Connected Transactions", "Announcement on the Resolutions of the Second Extraordinary General Meeting for 2009", "Announcement on Continuing Connected Transactions", "Announcement on Continuing Connected Transactions", "Announcement on Continuing Connected Transactions" and "Announcement of Revised Annual Cap for the 2010 Lead Purchase Framework Agreement" published on 28 October 2009, 29 December 2009, 22 February 2010, 27 April 2010, 29 November 2010 and 27 December 2010, respectively.

a) Purchases of handset batteries by the Group from Ruide

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

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. The other substantial shareholder of Ruide is Zhongxing Xindi with an approximately 23% interest. The remaining approximately 19.5% interest in Ruide is held by an individual shareholder who is a director of Ruide. Zhongxing Xindi is a company established under the laws of the PRC with limited liability and is a non-wholly owned subsidiary of Zhongxingxin and is an associate (within the meaning of the Hong Kong Stock Exchange Listing Rules) of Zhongxingxin. Zhongxingxin holds 70% equity interests in Zhongxing Xindi. As Zhongxingxin is the controlling shareholder (as well as one of the promoters) of the Company, Zhongxing Xindi constitutes a connected person of the Company as an associate of Zhongxingxin. Ruide is the Company's connected person pursuant to Rule 14A.11(5) of the Hong Kong Stock Exchange Listing Rules as its substantial shareholder, Zhongxing Xindi, is a connected person at the level of the Company.

- Total transaction amount in 2010:

Approximately RMB559,205,000

- Pricing and other terms:

At the meeting of the Board of Directors held on 22 February 2010, the Directors approved the 2010 connected transaction framework agreement between the Group and Ruide in respect of the continuing purchase of handset batteries from Ruide by the Group. The purchase framework agreement shall be effective until 31 December 2010.

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 the Group, the Group will issue purchase orders from time to time to Ruide pursuant to the framework agreement entered into with Ruide. 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 of the Group 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.

b) Purchase of liquid crystal modules (LCMs) by the Group from Lead

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

Lead is a non-wholly owned subsidiary of the Company established on 17 June 2003. The Company holds a 62.5% interest in Lead through Changfei. Zhongxingxin is a substantial shareholder of Lead with a 22.5% interest while an individual holds the remaining 15% interest. Given that Zhongxingxin is a substantial shareholder of the Company and is therefore a connected person at the level of the Company and is a substantial shareholder of Lead, Lead constitutes the Company's connected person pursuant to Rule 14A.11(5) of the Hong Kong Stock Exchange Listing Rules.

Material Matters

- Total transaction amount in 2010:

Approximately RMB294,257,000

- Pricing and other terms:

At the meeting of the Board of Directors held on 22 February 2010, the Directors approved the 2010 connected transaction framework agreement between the Group and Lead in respect of the continuing purchase of LCMS from Lead by the Group. The purchase framework agreement shall be effective until 31 December 2010.

As the total amount of the Group's purchase of handset batteries is expected to exceed the approved annual cap for the year ended 31 December 2010 owing to the increase in the sale of handsets by the Group in 2010, the Board has on 27 December 2010 approved the increase of the annual cap for the year ended 31 December 2010 from RMB255 million to RMB300 million to accommodate the requirements arising from the increase in the sale of handsets by the Group.

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 the Group, the Group will issue purchase orders from time to time to Lead pursuant to the framework agreement entered into with Lead. 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 Company expects handset sales to continue to form a major part of its business in the future. In order to capture this growing market demand, the Group requires steady, reliable and quality supplies of LCMs for its production of handsets. As the production of these LCMs 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 Company for the prices we offer. Lead was established to handle large-scale production at low unit cost and to specialize in the supply of LCMs. The Company believes that it has also been able to provide the Group a quick production turnaround time, consistent product quality and timely delivery. The Company has taken a majority stake in Lead. The Directors consider that having Lead as the Company's subsidiary allows the Group to secure steady supplies of quality liquid crystal LCMs in large volumes from a co-operative, reliable and specialized supplier that would not otherwise be easily available from other suppliers for comparable prices.

c) 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 54.55% 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 2010:

Approximately RMB571,387,000

- Pricing and other terms:

A potential supplier must pass the Group's internally formulated qualification procedures based on qualifications, product quality and price in order to become an approved supplier of the Group. Zhongxingxin, Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou were selected through the Group's qualification and bidding procedures as described above. The Directors are of the view that the purchases of raw materials and components from Zhongxingxin, Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou were conducted in accordance with the said qualification and bidding procedure of the Group. The Directors further confirm that the prices of the said purchases were determined on an arm's length basis and were consistent with the prices charged by independent third party suppliers. The Group will settle the payment by commercial acceptance bill for the products within 210 days from the date of inspection and acceptance of the products. During the term of the non-exempt connected transaction framework agreement, ZTE Kangxun issues purchase orders to the supplier, specifying, among other things, product types, agreed quantities and prices, quality specifications, delivery times, places and modes, as well as contact details.

The prices were determined after arm's length negotiations by reference to prices at which identical or similar products in similar quantities were sold around the same time to independent third parties by Zhongxingxin, Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou.

- Purpose of the transaction:

Zhongxingxin, Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou were selected through the Group's qualification and bidding procedures as they have consistently been able to meet the Group's stringent demands for fast product turnaround time, high product quality and timely delivery. As the Group considers that having reliable and cooperative suppliers is important and beneficial to us, purchasing components required for the Group's products from Zhongxingxin, Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou allows us to secure essential control over the supply of most of the components of our production by being able to ensure the quality and timely delivery of such components.

Material Matters

d) *Property Leasing by Tianjin Zhongxing Software from Tianjin Zhongxing International*

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

Juxian, a substantial shareholder of ZTE Microelectronics Technology Co., Ltd. and ZTE Kangxun Telecom Company Limited, both subsidiaries of the Company, holds 40% of the equity interests of Tianjin Zhongxing International. Tianjin Zhongxing International is an associate of Juxian and therefore a connected person of the Company as defined under Rule 14A.11 of the Hong Kong Stock Exchange Listing Rules. Pursuant to the amended definition of "associates" under Rule 19A.04 (b) (i) and (iv) of Hong Kong Stock Exchange Listing Rules dated 3 June 2010, Tianjin Zhongxing International is no longer deemed as a connected person of the Company.

- Total transaction amount in 2010:

Approximately RMB617,000

- Pricing and other terms:

At the meeting of the Board of Directors held on 27 April 2010, the Directors approved the lease of certain properties at the Airport Industrial Zone of Binhai New Area, Tianjin, PRC with a total floor area of approximately 25,000 square metres by Tianjin Zhongxing Software from Tianjin Zhongxing International for a term commencing on 18 April 2010 and ending on 17 April 2013 (both dates inclusive). The rent of RMB40/square metre/month (inclusive of property management fees for public area, while the company responsible for property management within the premises) was determined by reference to the market rate.

- Purpose of the transaction

During the year, the prices of the connected transaction of property leasing by the Group were determined after arm's length negotiations on normal commercial terms. The prices at which the Group leased the property from the connected party were not higher than market rates for the lease of similar properties in neighbouring areas. Therefore, 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 who leased properties to the Group were able to provide lease properties in sound conditions at competitive prices. The Company considers trustworthy and cooperative partner as very important and beneficial to the Company's operations.

For details of the lease of property by Tianjin Zhongxing Software from Tianjin Zhongxing International, please refer to the "Announcement of Continuing Connected Transaction" published by the Company on 27 April 2010.

e) *For details of the implementation of the Group's connected transactions relating to the lease of properties from Zhongxingxin, Zhongxing Development and Chongqing Zhongxing Development during 2010, please refer to "Property Leasing" under the section headed "Significant connected transactions under applicable laws and regulations of the PRC." For details of the connected relationships between the Group and Zhongxingxin, Zhongxing Development and Chongqing Zhongxing Development and information of the connected parties, please refer to the "Announcement of Continuing Connected Transaction" published by the Company on 23 April 2009.*

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

- the transactions were conducted in the ordinary and usual course of business of the Company;

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

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

- were approved by the Board of Directors of the Company;
- were conducted in accordance with the pricing policies of the Company (where goods or services are being supplied or rendered by a listed issuer);
- 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.

(XI) 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.

(XII) MATERIAL CONTRACTS OF THE COMPANY

1. **During the year, the Group was not engaged in any transaction, trust, sub-contracting, or lease of any assets of other companies nor were other companies engaged in trust, sub-contracting or lease any of the Company's assets of a material nature.**

2. **Third-party guarantees of the Company**

(1) Third-party guarantees provided by the Group during the year were as follows:

	Third-party guarantees provided by the Company (excluding guarantees on behalf of subsidiaries)							
Guaranteed party	Date and code number of Announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties (Yes/No)
Djibouti Telecom S.A.	19 April 2007, 200720	RMB50 million	8 September 2006	RMB50 million	Joint liability	12 years	No	No
Benin Telecoms S.A.[Note 1]	23 July 2007, 200735	USD3 million	28 June 2007	USD3 million	Assurance	6.5 years	No	No
TRANSAM S.A.[Note 2]	28 April 2010, 201052	USD2.80 million	N/A	–	Joint liability	–	Yes	No
Total amount of third-party guarantee approved during the reporting period (A1)		USD2.80 million	Total amount of third-party guarantee actually incurred during the reporting period (A2)					0
Total amount of third-party guarantee approved as at the end of the reporting period (A3)		RMB88,411,700	Total amount of third-party guarantee actually incurred as at the end the reporting period (A4)					RMB69,868,100

Material Matters

Guaranteed party	Date and code number of Announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties (Yes/No)
Guarantees provided by the Company on behalf of subsidiaries								
ZTE (H.K.) Limited Note 1	23 July 2007, 200735	USD3 million	28 June 2007	USD3 million	Joint liability Guarantee	6.6 years	No	No
Congo-Chine Telecom S.A.R.L. Note 3	17 August 2007, 200738	USD105 million	8 November 2007	USD8,405,000	Guarantee by pledge	7.5 years	No	No
Closed Joint-Stock Company CJSC TK Mobile Note 4	12 May 2009, 200917	USD70.60 million	N/A	—	Guarantee by pledge	—	No	No
PT. ZTE Indonesia Note 4	6 June 2009, 200926	USD40 million	10 June 2009	USD40 million	Joint liability Guarantee	From maturity to the date on which performance of obligations of PT. ZTE Indonesia under "Framework Agreement for Technical Support" is completed	No	No
PT. ZTE Indonesia Note 4	6 June 2009, 200926	USD5 million	17 June 2009	USD5 million	Joint liability Guarantee	3.6 years or the date on which performance of obligations of PT. ZTE Indonesia under "Framework Agreement for Technical Support" is completed, whichever later	No	No
ZTE Telecom India Private Limited Note 5	13 November 2009, 200945	USD30 million	30 December 2009	USD30 million	Joint liability Guarantee	From maturity to the date on which performance of obligations of ZTE India under "Framework Agreement for Infrastructure Network Construction" is completed	No	No
ZTE Telecom India Private Limited Note 5	13 November 2009, 200945	USD3 million	31 December 2009	INR6,848,100	Joint liability Guarantee	—	No	No

Total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1)	0	Total amount of guarantee on behalf of subsidiaries actually incurred during the reporting period (B2)	0
Total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3)	RMB1,699,384,800	Total amount of guarantee on behalf of subsidiaries actually incurred as at the end the reporting period (B4)	RMB573,239,200

Total amount guaranteed by the Company (sum of the two categories aforesaid)			
Total amount of guarantee approved during the reporting period (A1+B1)	USD2.80 million	Total amount of guarantee actually incurred during the reporting period (A2+B2)	0
Total amount of guarantee approved as at the end of the reporting period (A3+B3) Note 1	RMB1,767,928,400	Total amount of guarantee actually incurred as at the end the reporting period (A4+B4) Note 1	RMB623,239,200
Total guaranteed amount as a percentage of net assets of the Company (A4+B4)			2.70%
Including:			
Amount of guarantees provided on behalf of shareholders, effective controllers and their connected parties (C)			0
Amount of debt guarantee provided directly or indirectly on behalf of parties with a gearing ratio exceeding 70% (D)			RMB573,239,200
Amount of total guarantee exceeding 50% of net assets (E)			0
Aggregate amount of the three guarantee amounts stated above (C+D+E)			RMB573,239,200
Statement on potential joint liability involved in outstanding guarantees			N/A

Note 1: 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. These two guarantees have been treated as the same guarantee in the calculation of the sum of the total amount of guarantees approved as at the end of the reporting period and the total balance of actually incurred as at the end the reporting period.

Note 2: The provision by the Company of a USD2.80 million guarantee by way of a performance guarantee letter on behalf of Chilean mobile carrier TRANSAM S.A. was considered and approved at the Third Meeting of the Fifth Session of the Board of Directors, the details of which were disclosed in the "Announcement of External Guarantee" published on 27 April 2010. The Company has not provided any related guarantee letter after the consideration and approval of the guarantee at the Board meeting. In October 2010, the guaranteed party TRANSAM S.A. was wholly sold to ENTEL, a Chilean mobile carrier. The guarantee would be provided by ENTEL and the Company is no longer required to provide the guarantee letter. As of now, the guarantee has been closed.

Note 3: The Company provided a guarantee in respect of a bank loan extended to subsidiary Congo-Chine Telecom S.A.R.L. by pledging its 51% equity interests in Congo-Chine Telecom S.A.R.L. As the gearing ratio of Congo-Chine exceeded 70%, the said guarantee was subject to consideration and approval by the Board of Directors and the general meeting of the Company in accordance with requirements of relevant laws and regulations.

Note 4: It was respectively approved at the Twenty-fourth and Twenty-fifth Meetings of the Fourth Session of the Board of Directors that the 51% equity interests in Closed Joint-Stock Company CJSC TK Mobile ("CJSC TK Mobile") held by the Company be applied as a security against a bank loan extended to CJSC TK Mobile; a performance guarantee of US$40 million be provided by the Company for PT. ZTE Indonesia ("ZTE Indonesia"), a wholly-owned subsidiary and application be made by the Company to the relevant bank for the issuance of a letter of performance guarantee with an amount of US$5 million. Since the gearing ratio of both CJSC TK Mobile and ZTE Indonesia was above 70%, the aforesaid guarantees were approved at the First Extraordinary General Meeting of 2009 in accordance with relevant laws and regulations. As at the date of this report, a US$5 million guarantee for ZTE Indonesia provided by way of standby letter of credit backed by the Company's banking credit facilities has been executed and the US$40 million performance guarantee agreement has been signed. The guarantee provided in respect of CJSC TK Mobile's bank loans by way of pledge of equity has yet to be performed as the relevant agreement has yet to be signed.

Note 5: It was approved at the Thirty-first Meeting of the Fourth Session of the Board of Directors that a performance guarantee of not more than US$30 million be provided by the Company for ZTE Telecom India Private Limited ("ZTE India"), a wholly-owned subsidiary of the Company and application be made by the Company to the relevant bank for the issuance of an assurance letter in respect of contract performance to provide guarantee with an amount not exceeding US$3 million for ZTE India. Since the gearing ratio of ZTE India was above 70%, the aforesaid guarantees were approved at the Second Extraordinary General Meeting of 2009 in accordance with relevant laws and regulations. As at the date of this report, an agreement in respect of the US$30 million performance guarantee provided by the Company has been signed and INR6,848,100 out of the US$3 million guarantee provided to ZTE India by way of bank assurance letter has been drawn upon.

Note 6: Guaranteed amounts denominated in Indian Rupee (INR) are translated at the exchange rate of 1 Indian Rupee to RMB0.14673 (being the book exchange rate of the Company on 31 December 2010). Guaranteed amounts denominated in US dollars are translated at the exchange rate of USD1 to RMB6.6227 (being the book exchange of the Company on 31 December 2010).

Note 7: 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 in order to be effective. 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 for approval following approval by the Board of Directors in order to be effective.

3. During the year, the Group did not enter into any entrusted investments.

Material Matters

4. Progress during the reporting period of contracts entered into during or prior to 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	GSM Phase II project contract with Ethiopian Telecommunications Corporation	20 September 2007		Under normal progress
3	Network Supply Agreement and Managed Service Agreement with Cell C (PTY) LTD., a South African mobile telecommunications operator, and its controlling shareholder OGER TELECOM (SOUTH AFRICA) (PTY) Limited	27 January 2010		Under normal progress

(XIII) UNDERTAKINGS

Undertakings	Given by:	Details of undertaking	Performance
Other undertaking (including additional undertakings)	Zhongxingxin	On 10 October 2008, Zhongxingxin, the controlling shareholder of the Company, acquired additional A shares of the Company through the trading system of Shenzhen Stock Exchange and gave an undertaking that it would not sell down its holdings of shares in the Company during the period of additional acquisition and the statutory period. As at 9 October 2009, the plan of Zhongxingxin to acquire additional shares was completed. Zhongxingxin has received the "Reply of Approval for Waiver of the Obligation of Shenzhen Zhongxingxin Telecommunications Equipment Company Limited to Make A General Offer for the Shares of ZTE Corporation" (《關於核准豁免深圳市中興新通訊設備有限公司要約收購中興通訊股份有限公司股份義務的批覆》) (Zheng Jian Xu Ke [2010] No. 721) from CSRC. For details, please refer to the announcement of the Company dated 2 June 2010.	In compliance with its undertaking, Zhongxingxin did not sell down its holdings of shares of the Company during the period of further acquisition and the statutory period.

(XIV) APPOINTMENT OF AUDITORS

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

(XV) RECEPTION OF INVESTORS AND ANALYSTS, COMMUNICATIONS AND PRESS INTERVIEWS

Name	Location	Time	Mode	Audience received	Key contents of discussion	Materials furnished
Presentation of the Company	Hong Kong	April 2010	2009 annual results presentation	Analysts and investors	2009 annual report	Published announcements and regular reports
	Shenzhen	April 2010	Teleconference	Analysts and investors	2009 annual report	Published announcements and regular reports
	Shenzhen	April 2010	Teleconference	Analysts and investors	2010 first quarterly report	Published announcements and regular reports
	Shenzhen	August 2010	Teleconference	Analysts and investors	2010 interim report	Published announcements and regular reports
	Shenzhen	October 2010	Teleconference	Analysts and investors	2010 third quarterly report	Published announcements and regular reports
External meetings	Hong Kong	March 2010	Credit Suisse Asia Investment Forum	Credit Suisse customers	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	May 2010	CLSA investors' conference	CLSA customers	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	May 2010	Morgan Stanley investors' conference	Morgan Stanley customers	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	June 2010	Goldman Sachs investors' conference	Goldman Sachs customers	Day-to-day operations of the Company	Published announcements and regular reports
	Lijiang	June 2010	Sinolink Securities interim strategy meeting	Sinolink Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	June 2010	Everbright Securities interim strategy meeting	Everbright Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	June 2010	China Merchant Securities interim strategy meeting	China Merchant Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Qingdao	July 2010	CITIC Securities interim strategy meeting	CITIC Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Xi'an	July 2010	China Securities interim strategy meeting	China Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	September 2010	Guosen Securities investors' conference	Guosen Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	September 2010	CLSA investors' conference	CLSA customers	Day-to-day operations of the Company	Published announcements and regular reports
	Beijing	November 2010	Merrill Lynch investors' interviews	Merrill Lynch customers	Day-to-day operations of the Company	Published announcements and regular reports
	Jiuzhaigou	November 2010	Changjiang Securities annual strategy meeting	Changjiang Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	December 2010	HSBC investors' interviews	HSBC customers	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	December 2010	Huatai United Securities annual strategy meeting	Huatai United Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Beijing	December 2010	Orient Securities annual strategy meeting	Orient Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	December 2010	Essence Securities annual strategy meeting	Essence Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	December 2010	Hua Chuang Securities annual strategy meeting	Hua Chuang Securities customers	Day-to-day operations of the Company	Published announcements and regular reports

Material Matters

Name	Location	Time	Mode	Audience received	Key contents of discussion	Materials furnished
Company visits by investors	Overseas investors					
	Company	2010	Verbal	CLSA, BNP, Brunnei Investment Agency, Philadelphia International, Cavalry, Baillie Gifford, Harris Associates, UOB, Piper Jaffry, Daiwa Securities, Yuanta Taiwan, Fidelity, UBS Fundamental Investment Group, Sloane Robinson Investment Management, Kylin Management, Joho Asia, Front Point Management, Mitsubishi UFJ Securities, Mitsui Sumitomo, Mirae Asset Securities, Nikko Assets, GIC, Caledonia Investments, Invesco, Asia Growth Investor AB, Deutsche Asset Management Americas, Nomura Securities, Nomura Asset Management, Macquarie, Public Mutual Investment Management, Level Global Investors, Alliance Bernstein, Hermes Global Equities Advisors, Threadneedle Asset Management, Mitsubishi UFJ Investment Services, Baillie Gifford, RCM, Deutsche Bank, Patrick Courval, Pelargos Capital B.V (Netherlands), ISI Group, Oaktree Capital, Capital Research, Morgan Stanley, Waddell & Reed Financial Inc. (P), Ontario Teachers' Pension Plan, Sumitomo Trust Bank, UBS Global Asset Management (Singapore), Primero Investment Limited, Simplex Asset Management, Spinner Asset Management, Ameriprise Financial Services Inc., Tuboron Partners, Canadian National, Moon Capital, Cathay Life, Tiger Asia Fund, Tudor Investments Corporation, Genesis Investment Management, LLP, Trilogy Global Advisors, Principal Global Investors Singapore, MEAG Asset Management, BGC Partners, TIAA-CREF Investment Management Inc, Atlantis, 禾其投資, Samsung Securities (Asia) Ltd, Eton Park Capital Management, RBS, Boston Company, American Century, HSBC, GS Investment Partners, JP Morgan, Soros Fund Management LLC, Clairvoyance Capital, Discovery Capital Management, Kim Eng Securities (HK) Ltd., Ticonderoga Securities, Alkeon Capital Management, Sanford C. Bernstein Limited, Japaninvest (Hong Kong) Ltd., Abu Dhabi Investment Authority, BOCI, JP Morgan Asset Mgmt Ltd (Singapore), BMO Asia, CCBI, PMA, Cathay Life	Day-to-day operations of the Company	Published announcements and regular reports

Name	Location	Time	Mode	Audience received	Key contents of discussion	Materials furnished
	Domestic investors					
	Company	2010	Verbal	Peng Sheng Assets Management Company Limited, Hong Yuan Securities, China Life Asset Management, China Securities, China International Fund Management, China Jianyin Investment Securities, New Value, Essence Securities, Ming Yuan Investment, United Securities, Harfor Fund, Harvest Fund, BoCom Schroders, Guotai Jun'an, Hua An Fund, Sinolink Securities, Everbright Securities, CITIC Securities, Guangfa Securities, E Fund, Ping An Securities, Southern Fund, Guosen Securities, China Merchant Securities, New China Asset Management, Hua Chuang Securities, Great Wall Fund, Greenwoods Asset Management, Dacheng Fund, UBS SDIC, Fortune SGAM Fund, Donghai Securities, CICC, Huatai United Securities, Rongtong Fund, China Life Insurance Asset Management, First Shanghai, China AMC Fund, China Post Fund, Guangfa Fund, China Merchant Fund, Changjiang Securities, China Securities	Day-to-day operations of the Company	Published announcements and regular reports

(XVI) INVESTIGATIONS, ADMINISTRATIVE PENALTIES, PUBLIC CENSURES AND REPRIMANDS

During the year, 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, judiciary actions or prosecution for criminal charges, examination by CSRC, administrative penalty by CSRC, prohibition from participation in the securities market, opinion of deemed inappropriateness, punishment by other administrative authorities and public censure by the Shenzhen Stock Exchange.

(XVII) SIGNIFICANT ASSET IMPAIRMENT PROVISION

The Company did not make any significant provision for asset impairment in 2010.

(XVIII) 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 events that were significant in the judgment of the Board of Directors occurred to the Company.

Material Matters

(XIX) DERIVATIVE INVESTMENTS

Risk analysis and control measures (including but not limited to market risks, liquidity risks, credit risks, operational risks and legal risks) in respect of derivative positions during the reporting period

Derivative investments conducted by the Company during 2010 included fixed-income derivatives and value-protection derivatives (including value-protection hedging derivative investments[Note 1]). The major risks and control measures are discussed as follows:

1. Market risks: For fixed-income derivatives, gains were recognised at maturity. Gains or losses arising from the change in fair value as a result of differences in domestic and overseas forward quotations during the investment period are accounted for as variable gains or losses, which will not affect the ultimate gains of the derivatives. Assuming a highly effective hedge, in value-protection hedging derivative investments, the fair-value change in the hedging instruments will offset the fair-value change in the hedged item, such that the fair-value change of the transaction as a whole will not have any material impact on the Company's profit or loss. Gains or losses arising from the difference between the agreed exchange rate for transaction and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the value-protection derivative investments. Effective gains or losses shall be represented by the accumulative gains or losses on revaluation on the maturity date.

2. Liquidity risks: Fixed-income derivative investments are based on the foreign exchange payments for imports. The product did not effectively require the appropriation of available funds and therefore presented minimal liquidity risks. The value-protection derivatives investments (including value-protection hedging derivative investments) of the Company were based on the Company's budget of foreign exchange income and expenditure and these investments matched the Company's actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their effect on the Company's current assets was relatively small.

3. Credit risks: The counterparties of the derivative investment trades of the Company are banks with sound credit ratings and long-standing business relationships with the Company and therefore the transactions were basically free from performance risks.

4. Other risks: Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives may result in operational risks in actual operation; Obscure terms in the trade contract may result in legal risks.

5. Control measures: The Company addressed legal risks by entering into contracts with clear and precise terms with counterparty banks and strictly enforcing its risk management system. The Company has formulated the "Risk Control and Information Disclosure System relating to Investments in Derivatives" that contains specific provisions for the risk control, review procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments will be duly controlled.

Market prices or fair-value change of invested derivatives during the reporting period, including the specific methods, assumptions and parameters adopted in the analysis of the fair values of the derivatives	The gains from investments in derivatives during the reporting period was recognised by the Company. Total gains recognised for the reporting period amounted to RMB140.57 million, comprising exchange gains of RMB50.27 million, gains from fair-value change of RMB83.60 million and recognised investment gains of RMB6.70 million. The calculation of the fair value was based on forward exchange rates quoted by the counterparty bank on a balance sheet date in line with the maturity date of the product.
Statement on whether the accounting policy and accounting audit principles for derivatives for the reporting period were significantly different from the previous reporting period	There was no significant change in the Company's accounting policy and accounting audit principles for derivatives for the reporting period as compared to that of the previous reporting period.
Specific opinion of Independent Directors on the Company's derivative investments and risk control	Independent Directors' Opinion: The Company conducted fixed-income derivative investments based on due USD payables to offset exchange losses arising from the appreciation of RMB by obtaining low-risk fixed income. The Company conducted value-protection derivative investments (including value-protection hedging derivative investments) by using financial products to enhance its financial stability, so as to mitigate the impact of exchange-rate volatility on its assets, liabilities and profitability. The Company has conducted stringent internal assessment of its derivative investments made and has established corresponding regulatory mechanisms and dedicated staff. The counterparties with which the Company and its subsidiaries enter into contracts for derivative investments are organisations with sound operations and good credit standing. We are of the view that the derivative investments made by the Company and its subsidiaries are closely related to their day-to-day operational requirements and in compliance with relevant laws and regulations.

Note 1: Value-protection hedging derivative investments refer to value-protection hedging activities conducted through foreign exchange forward contracts.

Material Matters

1. **Positions in derivative investments at the end of the reporting period**

Unit: RMB in thousands

Type of contract[Note 1]	Balance of contract	Closing balance of contract	Gain/loss during the reporting period	Contract amount as a percentage of the Company's net assets as at the end of the period[Note 3]
Fixed-income derivative investment	0	4,473,943	122,894	19.37%
Value-protection Derivative[Note 2]	0	1,968,858	17,671	8.53%
Total	0	6,442,801	140,565	27.90%

Note 1: Contracts are classified according to the different purposes of derivative investments and accounting treatments of such derivative investments.

Note 2: The Company made one investment in value-protection hedging derivatives during the year, which was transferred to general financial instruments in accordance with PRC ASBEs prior to its maturity after early recovery of trade receivables hedged by such investment.

Note 3: The net asset value of the Company as at the end of the reporting period is based on equity attributable to shareholders of the parent company at the end of the period.

(XX) EC ANTI-DUMPING AND ANTI-SUBSIDY INVESTIGATIONS AND INVESTIGATION IN PROTECTIVE MEASURES AGAINST DATA CARD PRODUCTS FROM CHINA

The European Commission (the "EC") announced on 16 September 2010 that it has opened an anti-subsidy investigation in respect of data card products (more specifically known as wireless wide area networking (WWAN) modems) imported from China. This represented investigation in a third category by the EC in respect of data card products from China, following the anti-dumping investigation and investigation of protective measures announced on 30 June 2010. For details, please refer to the "Announcement on Anti-subsidy Investigation by the European Commission in respect of Data Card Products from China" published by the Company on 17 September 2010.

After anti-subsidy investigations, anti-dumping investigations and investigations of protective measures had been initiated, the Company diligently prepared for the investigations and promptly appointed a law firm to answer the investigations. We submitted relevant materials and allowed on-site anti-dumping investigations by the EC in a timely manner within the timeframe stipulated by relevant EC laws and regulations. Option, the claimant, and the Belgian government withdrew the complaints relating to anti-dumping, anti-subsidy and protective measures in October 2010. The EC issued an official statement to announce the termination of investigation of protective measures in January 2011, followed by an official announcement of the termination of anti-dumping and anti-subsidy investigations in March 2011, which officially brought the anti-subsidy investigations, anti-dumping investigations and investigations of protective measures to a close.

(XXI) OTHER MATERIAL MATTERS

There were no other disclosable material matters occurring to the Company and its subsidiaries during the year that remained undisclosed.

Independent Auditors' Report

Ernst & Young Hua Ming (2011) Shen Zi No. 60438556_H01

ERNST & YOUNG HUA MING
安 永 华 明 会 计 师 事 务 所

To the Shareholders of ZTE Corporation:

We have audited the accompanying financial statements of ZTE Corporation which comprise the consolidated and company balance sheets as at 31 December 2010, the consolidated and company income statements, statement of changes in equity and cash flow statement for the year ended 31 December 2010 and notes to the financial statements.

I. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The management of ZTE Corporation is responsible for the preparation and fair presentation of financial statements. Such responsibility includes: (1) preparation of the financial statements in accordance with the Accounting Standards for Business Enterprises to ensure fair representation; (2) the design, implementation and maintenance of necessary internal controls so that the financial statements are free from material misstatement whether due to fraud or error.

II. RESPONSIBILITY OF THE CERTIFIED PUBLIC ACCOUNTANT

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 of the Chinese Certified Public Accountants 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, certified public accountants 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.

Independent Auditors' Report (continued)

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 consolidated and company financial position as at 31 December 2010 and the consolidated and company results of operations and cash flows of ZTE Corporation for the year ended 31 December 2010.

Ernst & Young Hua Ming

Chinese Certified Public Accountant:
Xie Feng (謝楓)

Beijing, the People's Republic of China

Chinese Certified Public Accountant:
Li Yuxing (黎宇行)

17 March 2011

Consolidated Balance Sheet

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

Assets	Note V	2010	2009
Current assets			
Cash	1	**15,383,207**	14,496,808
Derivative financial assets	2	**123,365**	—
Bills receivable	3	**1,289,877**	779,112
Trade receivables	4	**17,563,925**	15,319,215
Factored trade receivables	4	**3,016,569**	2,870,221
Other receivables	5	**1,389,783**	1,059,829
Prepayments	6	**449,664**	355,422
Inventories	7	**12,103,670**	9,324,800
Amount due from customers for contract works	8	**14,208,039**	11,388,496
Total current assets		**65,528,099**	55,593,903
Non-current assets			
Available-for-sale financial assets	9	**342,706**	253,760
Long-term trade receivables	10	**567,444**	383,749
Factored long-term trade receivables	10	**4,972,718**	2,968,629
Long-term equity investments	12	**917,989**	440,282
Fixed assets	13	**6,523,505**	4,714,533
Construction in progress	14	**1,146,739**	1,332,735
Intangible assets	15	**891,290**	613,773
Deferred development costs	15	**1,466,504**	778,375
Deferred tax assets	16	**655,245**	643,918
Long-term deferred assets		**50,032**	10,306
Other non-current assets	1	**1,090,086**	608,359
Total non-current assets		**18,624,258**	12,748,419
TOTAL ASSETS		**84,152,357**	68,342,322

Consolidated Balance Sheet (continued)

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

Liabilities and shareholders' equity	Note V	2010	2009
Current liabilities			
Short-term loans	18	**6,578,413**	4,906,503
Bank advances on factored trade receivables	4	**3,016,569**	2,870,221
Derivative financial liabilities	2	**40,139**	—
Bills payable	19	**10,056,477**	8,484,861
Trade payables	20	**15,441,206**	13,046,804
Amount due to customers for contract works	8	**2,772,669**	2,519,706
Advances from customers	21	**2,744,694**	2,337,628
Salary and welfare payables	22	**3,097,927**	2,398,720
Taxes payable	23	**(321,345)**	77,715
Dividends payable	24	**136,302**	16,966
Other payables	25	**2,976,325**	2,213,477
Deferred income		**91,256**	92,830
Provisions	26	**260,693**	189,664
Long-term loans due within one year	27	**1,322,817**	1,939,965
Total current liabilities		**48,214,142**	41,095,060
Non-current liabilities			
Long-term loans	28	**1,719,310**	2,396,393
Bank advances on factored long-term trade receivables	10	**4,972,718**	2,968,629
Bonds cum warrants	29	**3,755,790**	3,632,681
Deferred tax liabilities	16	**89,167**	3,924
Other non-current liabilities	30	**439,232**	296,769
Total non-current liabilities		**10,976,217**	9,298,396
Total liabilities		**59,190,359**	50,393,456
Shareholders' equity			
Share capital	31	**2,866,732**	1,831,336
Capital reserves	32	**9,070,975**	6,749,899
Restricted shares subject to lock-up	33	**(276,266)**	(447,235)
Surplus reserves	34	**1,537,512**	1,505,203
Retained profits	35	**9,222,387**	6,853,682
Proposed final dividends	35	**841,297**	552,425
Foreign currency translation differences		**(168,765)**	(220,043)
Total equity attributable to equity holders of the parent		**23,093,872**	16,825,267
Minority interests		**1,868,126**	1,123,599
Total shareholders' equity		**24,961,998**	17,948,866
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**84,152,357**	68,342,322

The financial statements set out on page 129 to 269 have been signed by:

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

Consolidated Income Statement

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

	Note V	2010	2009
Operating revenue	36	**70,263,874**	60,272,563
Less: Operating costs	36	**47,335,026**	40,623,339
Taxes and surcharges	38	**1,149,077**	692,933
Selling and distribution costs	39	**8,754,968**	7,044,382
Administrative expenses	40	**2,410,294**	2,567,928
Research and development costs		**7,091,971**	5,781,583
Finance expenses	43	**1,198,477**	784,726
Impairment losses	44	**315,263**	737,940
Add: Gains from changes in fair values	41	**83,597**	12,560
Investment income	42	**497,163**	11,871
Including: Share of profits and losses of jointly-controlled entities and associates	42	**44,123**	26,002
Operating profit		**2,589,558**	2,064,163
Add: Non-operating income	45	**2,002,149**	1,391,420
Less: Non-operating expenses	45	**231,506**	130,841
Including: Loss on disposal of non-current assets		**24,094**	26,744
Total profit		**4,360,201**	3,324,742
Less: Income tax	46	**883,719**	629,081
Net profit		**3,476,482**	2,695,661
Net profit attributable to owners of the parent		**3,250,247**	2,458,121
Minority interests		**226,235**	237,540
Earnings per share	47		
Basic earnings per share		**RMB1.17**	RMB0.93
Diluted earnings per share		**RMB1.15**	RMB0.90
Other comprehensive income	48	**41,399**	8,644
Total comprehensive income		**3,517,881**	2,704,305
Including:			
Total comprehensive income attributable to owners of the parent		**3,301,525**	2,486,224
Total comprehensive income attributable to minority interests		**216,356**	218,081

Consolidated Statement of Changes in Equity

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

	2010									
	Equity attributable to equity holders of the parent									
	Share capital	Capital reserve	Restricted Shares subject to lock-up	Surplus reserve	Retained profits	Proposed Final dividends	Foreign currency translation differences	Sub-total	Minority interests	Total shareholders' equity
I. Current year's opening balance	1,831,336	6,749,899	(447,235)	1,505,203	6,853,682	552,425	(220,043)	16,825,267	1,123,599	17,948,866
II. Changes during the year										
(1) Net profit	–	–	–	–	3,250,247	–	–	3,250,247	226,235	3,476,482
(2) Other comprehensive income	–	–	–	–	–	–	51,278	51,278	(9,879)	41,399
Total comprehensive income	–	–	–	–	3,250,247	–	51,278	3,301,525	216,356	3,517,881
(3) Shareholder's capital injection and capital reduction										
1. Capital injection from shareholders	79,819	3,116,945	170,969	–	–	–	–	3,367,733	719,505	4,087,238
2. Equity settled share expenses charged to equity	–	158,957	–	–	–	–	–	158,957	–	158,957
3. Others	–	–	–	–	–	–	–	–	(2,200)	(2,200)
(4) Profit appropriation										
1. Appropriation to surplus reserves	–	–	–	32,309	(32,309)	–	–	–	–	–
2. Distribution to shareholders	–	–	–	–	(7,936)	(552,425)	–	(560,361)	(189,134)	(749,495)
3. Proposed final dividends	–	–	–	–	(841,297)	841,297	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–	–
(5) Transfer of shareholders' equity										
1. Transfer of capital reserve to share capital	955,577	(955,577)	–	–	–	–	–	–	–	–
2. Transfer of surplus reserves to share capital	–	–	–	–	–	–	–	–	–	–
3. Surplus reserves making up of losses	–	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–	–
(6) Others										
1. Effect of changes of other equity holders' interest in invested entities by equity method	–	751	–	–	–	–	–	751	–	751
III. Current year's closing balance	2,866,732	9,070,975	(276,266)	1,537,512	9,222,387	841,297	(168,765)	23,093,872	1,868,126	24,961,998

Consolidated Statement of Changes in Equity (continued)

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

	2009									
	Equity attributable to equity holders of the parent									
	Share capital	Capital reserve	Restricted Shares subject to lock-up	Surplus reserve	Retained profits	Proposed final dividends	Foreign currency translation differences	Sub-total	Minority interests	Total shareholders' equity
I. Current year's opening 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
II. Changes during the year										
(1) Net profit	–	–	–	–	2,458,121	–	–	2,458,121	237,540	2,695,661
(2) Other comprehensive income	–	–	–	–	–	–	28,103	28,103	(19,459)	8,644
Total comprehensive income	–	–	–	–	2,458,121	–	28,103	2,486,224	218,081	2,704,305
(3) Shareholder's capital injection and capital reduction										
1. Capital injection from shareholders	85,007	474,037	(447,235)	–	–	–	–	111,809	22,070	133,879
2. Equity settled share expense charged to	–	299,594	–	–	–	–	–	299,594	–	299,594
3. Others	–	80,000	–	–	–	–	–	80,000	(12,176)	67,824
(4) Profit appropriation										
1. Appropriation to surplus reserves	–	–	–	73,383	(73,383)	–	–	–	–	–
2. Distribution to shareholders	–	–	–	–	–	(402,999)	–	(402,999)	(38,379)	(441,378)
3. Proposed final dividends	–	–	–	–	(552,425)	552,425	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–	–
(5) Transfer of shareholders' equity										
1. Transfer of capital reserve to share capital	402,999	(402,999)	–	–	–	–	–	–	–	–
2. Transfer of surplus reserves to share capital	–	–	–	–	–	–	–	–	–	–
3. Surplus reserves making up of losses	–	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–	–
(6) Others										
1. Effect of changes of other equity holders' interest in invested entities by equity method	–	1,095	–	–	–	–	–	1,095	–	1,095
III. Current year's closing balance	1,831,336	6,749,899	(447,235)	1,505,203	6,853,682	552,425	(220,043)	16,825,267	1,123,599	17,948,866

Consolidated Cash Flow Statement

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

		Note V	2010	2009
I.	**Cash flows from operating activities**			
	Cash received from sale of goods or rendering of services		**67,783,927**	58,137,378
	Refunds of taxes		**4,742,338**	3,204,945
	Cash received relating to other operating activities	49	**655,081**	442,533
	Sub-total of cash inflows		**73,181,346**	61,784,856
	Cash paid for goods and services		**47,382,746**	38,252,058
	Cash paid to and on behalf of employees		**9,678,857**	7,899,513
	Cash paid for all types of taxes		**4,437,726**	3,287,551
	Cash paid relating to other operating activities	49	**10,740,107**	8,616,462
	Sub-total of cash outflows		**72,239,436**	58,055,584
	Net cash flows from operating activities	50	**941,910**	3,729,272
II.	**Cash flows from investing activities**			
	Cash received from sale of investments		**–**	12,933
	Cash received from return on investments		**17,001**	5,210
	Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**29,480**	1,011
	Sub-total of cash inflows		**46,481**	19,154
	Cash paid to acquisition of fixed asset, intangible assets and other long term assets		**3,067,164**	2,053,824
	Cash paid for acquisition of investments		**91,902**	266,425
	Sub-total of cash outflows		**3,159,066**	2,320,249
	Net cash flows from investing activities		**(3,112,585)**	(2,301,095)
III.	**Cash flows from financing activities**			
	Cash received from capital injections		**3,913,019**	46,371
	Including: Capital injection into subsidiaries by minority shareholders		**716,255**	22,070
	Cash received from borrowings		**11,946,153**	9,721,064
	Sub-total of cash inflows		**15,859,172**	9,767,435
	Cash repayments of borrowings		**11,568,474**	7,435,235
	Cash payments for distribution of dividends, profits and for interest expenses		**1,252,949**	1,045,009
	Including: Distribution of dividends and profits by subsidiaries to minority shareholders		**69,797**	44,227
	Sub-total of cash outflows		**12,821,423**	8,480,244
	Net cash flows from financing activities		**3,037,749**	1,287,191
IV.	**Effect of changes in foreign exchange rate on cash and cash equivalents**		**(37,797)**	16,294
V.	**Net increase in cash and cash equivalents**		**829,277**	2,731,662
	Add: cash and cash equivalents at beginning of year		**14,075,822**	11,344,160
VI.	**Net balance of cash and cash equivalents**	50	**14,905,099**	14,075,822

Balance Sheet

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

Assets	Note XIII	2010	2009
Current assets			
Cash		**9,690,867**	10,096,875
Derivative financial assets		**23,984**	—
Bills receivable		**1,199,161**	672,374
Trade receivables	1	**24,283,587**	19,557,131
Factored trade receivables	1	**2,864,307**	2,727,445
Prepayments		**85,559**	173,408
Dividends receivable		**27,418**	1,017,020
Other receivables	2	**5,678,250**	3,240,367
Inventories		**5,501,368**	4,747,278
Amount due from customers for contract works		**12,668,254**	10,829,088
Total current assets		**62,022,755**	53,060,986
Non-current assets			
Available-for-sale financial assets	3	**244,448**	244,448
Long-term trade receivables	4	**1,262,311**	1,347,932
Factored long-term trade receivables	4	**5,097,718**	3,093,629
Long-term equity investments	5	**3,515,824**	2,196,637
Fixed assets		**4,253,887**	3,195,746
Construction in progress		**796,916**	790,491
Intangible assets		**492,918**	481,171
Deferred development costs		**350,767**	151,564
Deferred tax assets		**447,416**	382,537
Other non-current assets		**1,090,086**	608,359
Total non-current assets		**17,552,291**	12,492,514
TOTAL ASSETS		**79,575,046**	65,553,500

Balance Sheet (continued)

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

Liabilities and shareholders' equity	Note XIII	2010	2009
Current liabilities			
Short-term loans		**4,165,978**	3,388,734
Bank advances on factored trade receivables	1	**2,864,307**	2,727,445
Bills payable		**9,444,653**	9,473,080
Trade payables		**25,507,206**	17,834,626
Amount due to customers for contract works		**1,703,293**	2,153,082
Advances from customers		**2,110,666**	2,039,175
Salary and welfare payables		**504,335**	878,705
Taxes payable		**(948,244)**	(307,988)
Dividends payable		**97**	75
Other payables		**8,030,437**	5,662,122
Deferred income		**7,805**	33,237
Provisions		**109,493**	88,298
Long-term loans due within one year		**1,087,589**	1,204,846
Total current liabilities		**54,587,615**	45,175,437
Non-current liabilities			
Long-term loans		**728,497**	1,742,512
Bank advances on factored long-term trade receivables	4	**5,097,718**	3,093,629
Bonds cum warrants		**3,755,790**	3,632,681
Deferred tax liabilities		**66,048**	1,143
Other non-current liabilities		**439,232**	296,769
Total non-current liabilities		**10,087,285**	8,766,734
Total liabilities		**64,674,900**	53,942,171
Shareholders' equity			
Share capital		**2,866,732**	1,831,336
Capital reserves		**9,066,202**	6,745,877
Restricted shares subject to lock-up		**(276,266)**	(447,235)
Surplus reserves		**875,295**	842,986
Retained profits		**1,542,299**	2,100,753
Proposed final dividends		**841,297**	552,425
Foreign currency translation differences		**(15,413)**	(14,813)
Total shareholders' equity		**14,900,146**	11,611,329
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**79,575,046**	65,553,500

Income Statement

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

	Note XIII	2010	2009
Operating revenue	6	**62,351,362**	55,057,688
Less: Operating costs	6	**53,564,488**	45,634,129
Taxes and surcharges		**211,891**	80,016
Selling and distribution costs		**6,019,425**	5,247,526
Administrative expenses		**1,353,305**	1,517,716
Research and development costs		**1,903,620**	1,619,869
Finance expenses		**1,323,561**	810,802
Impairment losses		**304,305**	492,847
Add: Gains from changes in fair values		**23,984**	12,560
Investment income	7	**2,188,446**	1,051,371
Including: Share of profits and losses of Jointly-controlled entities and associates	7	**20,192**	12,089
Operating profit		**(116,803)**	718,714
Add: Non-operating income		**462,389**	268,136
Less: Non-operating expenses		**146,568**	47,713
Including: Loss on disposal of non-current assets		**10,927**	10,455
Total profit		**199,018**	939,137
Less: Income tax		**(124,070)**	205,311
Net profit		**323,088**	733,826
Other comprehensive income		**(600)**	(3,320)
Total comprehensive income		**322,488**	730,506

Statement of Changes in Equity

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

	2010							
	Share capital	Capital reserve	Restricted shares subject to lock-up	Surplus reserve	Retained profits	Proposed final dividends	Foreign currency translation differences	Total shareholders' equity
I. Current year's opening balance	1,831,336	6,745,877	(447,235)	842,986	2,100,753	552,425	(14,813)	11,611,329
II. Changes during the year								
(1) Net profit	–	–	–	–	323,088	–	–	323,088
(2) Other comprehensive income	–	–	–	–	–	–	(600)	(600)
Total comprehensive income	–	–	–	–	323,088	–	(600)	322,488
(3) Shareholder's capital injection and capital reduction								
1. Capital injection from shareholders	79,819	3,116,945	170,969	–	–	–	–	3,367,733
2. Equity settled share expenses charged to equity	–	158,957	–	–	–	–	–	158,957
3. Others	–	–	–	–	–	–	–	–
(4) Profit appropriation								
1. Appropriation to surplus reserves	–	–	–	32,309	(32,309)	–	–	–
2. Distribution to shareholders	–	–	–	–	(7,936)	(552,425)	–	(560,361)
3. Proposed final dividends	–	–	–	–	(841,297)	841,297	–	–
4. Others	–	–	–	–	–	–	–	–
(5) Transfer of shareholders' equity								
1. Transfer of capital reserve to share capital	955,577	(955,577)	–	–	–	–	–	–
2. Transfer of surplus reserves to share capital	–	–	–	–	–	–	–	–
3. Surplus reserves making up of losses	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–
(6) Others								
1. Effect of changes of other equity holders' interest in invested entities by equity method	–	–	–	–	–	–	–	–
III. Current year's closing balance	2,866,732	9,066,202	(276,266)	875,295	1,542,299	841,297	(15,413)	14,900,146

Statement of Changes in Equity (continued)

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

	2009							
	Share capital	Capital reserve	Restricted Shares subject to lock-up	Surplus reserve	Retained profits	Proposed Final dividends	Foreign currency translation differences	Total shareholders' equity
I. Current year's opening balance	1,343,330	6,271,137	–	769,603	1,992,735	402,999	(11,493)	10,768,311
II. Changes during the year								
(1) Net profit	–	–	–	–	733,826	–	–	733,826
(2) Other comprehensive income	–	–	–	–	–	–	(3,320)	(3,320)
Total comprehensive income	–	–	–	–	733,826	–	(3,320)	730,506
(3) Shareholder's capital injection and capital reduction								
1. Capital injection from shareholders	85,007	474,037	(447,235)	–	–	–	–	111,809
2. Equity settled share expenses charged to equity	–	299,594	–	–	–	–	–	299,594
3. Others	–	80,000	–	–	–	–	–	80,000
(4) Profit appropriation								
1. Appropriation to surplus reserves	–	–	–	73,383	(73,383)	–	–	–
2. Distribution to shareholders	–	–	–	–	–	(402,999)	–	(402,999)
3. Proposed final dividends	–	–	–	–	(552,425)	552,425	–	–
4. Others	–	–	–	–	–	–	–	–
(5) Transfer of shareholders' equity								
1. Transfer of capital reserve to share capital	402,999	(402,999)	–	–	–	–	–	–
2. Transfer of surplus reserves to share capital	–	–	–	–	–	–	–	–
3. Surplus reserves making up of losses	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–
(6) Others								
1. Effect of changes of other equity holders' interest in invested entities by equity method	–	24,108	–	–	–	–	–	24,108
III. Current year's closing balance	1,831,336	6,745,877	(447,235)	842,986	2,100,753	552,425	(14,813)	11,611,329

Cash Flow Statement

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

		Note XIII	2010	2009
I.	**Cash flows from operating activities**			
	Cash received from sale of goods or rendering of services		**59,832,828**	51,366,991
	Refunds of taxes		**3,465,668**	2,099,164
	Cash received relating to other operating activities		**469,774**	317,223
	Sub-total of cash inflows		**63,768,270**	53,783,378
	Cash paid for goods and services		**53,303,110**	44,383,735
	Cash paid to and on behalf of employees		**3,553,560**	2,126,248
	Cash paid for all types of taxes		**532,350**	168,456
	Cash paid relating to other operating activities		**5,636,662**	6,113,866
	Sub-total of cash outflows		**63,025,682**	52,792,305
	Net cash flows from operating activities	8	**742,588**	991,073
II.	**Cash flows from investing activities**			
	Cash received from sale of investments		**—**	5,572
	Cash received from return on investments		**57,538**	53,217
	Cash received from the disposal of fixed assets, intangible assets and other long-term assets, net		**35,471**	—
	Sub-total of cash inflows		**93,009**	58,789
	Cash paid to acquisition of fixed asset, intangible assets and other long term assets		**1,987,507**	1,601,175
	Cash paid for acquisition of investments		**806,600**	410,925
	Sub-total of cash outflows		**2,794,107**	2,012,100
	Net cash flows from investing activities		**(2,701,098)**	(1,953,311)
III.	**Cash flows from financing activities**			
	Cash received from capital injection		**3,196,764**	29,771
	Cash received from borrowings		**8,823,585**	7,544,169
	Sub-total of cash inflows		**12,020,349**	7,573,940
	Cash repayment of borrowings		**9,177,613**	4,160,328
	Cash payments for distribution of dividends, profits and for interest expenses		**1,128,436**	945,760
	Sub-total of cash outflows		**10,306,049**	5,106,088
	Net cash flows from financing activities		**1,714,300**	2,467,852
IV.	**Effect of changes in foreign exchange rate on cash and cash equivalents**		**(58,861)**	(21,136)
V.	**Net increase in cash and cash equivalents**		**(303,071)**	1,484,478
	Add: cash and cash equivalents at beginning of year		**9,808,228**	8,323,750
VI.	**Net balance of cash and cash equivalents**		**9,505,157**	9,808,228

Notes to Financial Statements

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

I. CORPORATE BACKGROUND

ZTE Corporation (the "Company") was a limited liability company jointly founded by Shenzhen Zhongxingxin Telecommunications Equipment Company Limited, China Precision Machinery Import & Export Shenzhen Company, Lishan Microelectronics Corporation, Shenzhen Zhaoke Investment Development Company 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 ("PRC") 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 Company Limited transferred its entire shares in the Company to Shenzhen Gaotejia Venture Investment Company Limited. The date of the share transfer was more than three years from the date of establishment of the Company and therefore was in compliance with the applicable provision under the PRC Company Law. In December 2003, Shenzhen Gaotejia Venture Investment Company Limited transferred its entire shares in the Company to Fortune Trust & Investment Company Ltd. Fortune Trust & Investment Company Ltd. transferred its entire shares in the Company to Jade Dragon (Mauritius) Company Limited in November 2005. On 29 December 2006, the shares of the Company owned by Jade Dragon (Mauritius) Company Limited were unlocked.

On 11 November 1997, the Company was registered and established upon approval by Guangdong Shenzhen Industrial and Commercial Administrative Bureau with registration no. of 440301103852869 (revised on 23 February 2009). 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 subcontracting of telecommunications projects.

Notes to Financial Statements

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

I. CORPORATE BACKGROUND (continued)

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

On 28 December 2005, the share reform plan of the Company was formally implemented and completed. On the first trading day subsequent to the implementation of the share reform plan, all original non-tradable shares held by non-tradable shareholders of the Company obtained the right of listing and circulation. As at 31 December 2008, all restricted shares held by the controlling shareholder had been converted into unrestricted shares.

Pursuant to a resolution of the 2007 annual general meeting of the Company, the share capital of the Company was increased by 383,808,660 shares in 2008 by way of capitalization of reserves with the issue of 4 Shares for every 10 Shares on the basis of the Company's share capital of 959,521,650 shares as at 31 December 2007. The registered capital of the Company increased to RMB1,343,330,310 upon completion of the capitalisation.

Pursuant to a resolution of the 2008 annual general meeting of the Company, the share capital of the Company was increased by 402,999,092 shares in 2009 by way of capitalization of reserves with the issue of 3 Shares for every 10 Shares on the basis of the Company's share capital of 1,343,330,310 shares as at 31 December 2008. The registered capital of the Company increased to RMB1,746,329,402 upon completion of the capitalisation.

At the Twenty-sixth Meeting of the Fourth Session of the Board of Directors of the Company held on 6 July 2009, it was ratified that a total Subject Share quota of 85,050,238 shares had been granted to 4,022 Scheme Participants under the Phase I Share Incentive Scheme of the Company. After the deduction of Subject Share quota of 43,425 shares which had lapsed, the total number issued share capital of the Company has increased by 85,006,813 shares and the total share capital of the Company in issue following the grant was 1,831,336,215 shares.

On 21 January 2010, the Company completed the placing of its new H shares, pursuant to which 58,294,800 H shares were issued and allotted. Following the issue of new H shares, the total share capital increased from 1,831,336,215 shares to 1,889,631,015 shares.

As at the close of trading on 12 February 2010, a total of 23,348,590 "ZXC1" Warrants (representing approximately 35.81% of the number of warrants prior to the exercise) had been exercised and a total of 41,851,410 unexercised Warrants were cancelled. Following the exercise of the warrants, the Company's A share capital increased by 21,523,441 shares, and the total share capital of the Company was increased from 1,889,631,015 shares before the exercise to 1,911,154,456 shares after the exercise.

On 12 March 2010, 3,239 Scheme Participants under the first award of the Phase I Share Incentive Scheme fulfilled the conditions for the second unlocking of Subjects Shares. A total of 26,452,094 A shares were unlocked as Subject Shares of the second unlocking. The total number of share capital remained unchanged after the unlocking, although there was a change in the inherent structure of the share capital.

Notes to Financial Statements

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

I. CORPORATE BACKGROUND (continued)

The implementation of the Company's 2009 profit distribution and capitalisation of capital reserve was completed on 24 June 2010, whereby 5 bonus shares for every 10 shares held were issued based on the number of shares recorded in the shareholders' register on the record date by way of capitalisation of capital reserve. The share capital was increased by a total of 955,577,228 shares as a result, and the total share capital after the capitalisation was 2,866,731,684 shares.

On 15 December 2010, 763 Scheme Participants under the second award of the Phase I Share Incentive Scheme fulfilled the conditions for the first unlocking of Subjects Shares. A total of 2,520,957 A shares were unlocked as Subject Shares of the first unlocking. The total number of share capital remained unchanged after the unlocking, although there was a change in the inherent structure of the share capital

As at 31 December 2010, the total number of the Company's issued share capital on an accumulative basis was 2,866,731,684 shares. Please refer to Note V.31 for details.

The controlling shareholder of the Group is Shenzhen Zhongxingxin Telecommunications Equipment Company Limited, a company incorporated in the PRC.

The financial statements were approved by the Board of Directors of the Company by way of resolution on 17 March 2011. In accordance with the Articles of Association of the Company, the financial statements will be tabled at the general meeting for consideration.

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. 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 (collectively "ASBEs") promulgated by the Ministry of Finance in February 2006.

The financial statements are prepared on a going concern 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 made according to relevant regulation if the assets are impaired.

2. Statement of compliance

The financial statements truly and completely reflect the financial position of the Group and the Company as at 31 December 2010 and the results of their operations and their cash flows for the year ended 31 December 2010.

3. Financial year

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

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

4. Reporting currency

Reporting currency and the currency used in preparing the financial statements were Renminbi. The amounts in the financial statements were denominated in thousand of 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.

5. 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 combining 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 combined. The combination date is the date on which the combining party effectively obtains control of the parties being combined.

Assets and liabilities obtained by combining party in the business combination are recognized at their carrying amounts at the combination date as recorded by the party being combined. 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 reserve is not sufficient to absorb the difference, any excess is adjusted to retained profits.

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

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

5. Business combination (continued)

Business combinations not involving entities under common control (continued)

The excess of the sum of the consideration paid (or equities issued) for business combination and equity interests in the acquiree held prior to the date of acquisition over the share of the attributable net identifiable assets of the acquiree, measured at fair value, was recognized as goodwill, which is subsequently measured at cost less cumulative impairment loss. In case the fair value of the sum of the consideration paid (or equities issued) and equity interests in the acquiree held prior to the date of acquisition is less than the fair value of the share of the attributable net identifiable assets of the acquiree, a review of the measurement of the fair values of the identifiable assets, liabilities and contingent liabilities, the consideration paid for the combination (or equity issued) and the equity interests in the acquiree held prior to the date of acquisition is conducted. If the review indicates that the fair value of the sum of the consideration paid (or equities issued) and equity interests in the acquiree held prior to the date of acquisition is indeed less than the fair value of the share of the attributable net identifiable assets of the acquiree, the difference is recognized in current profit or loss.

6. Consolidated financial statements

The consolidation scope for consolidated financial statement is determined based on the concept of control, including the Company and all subsidiaries' financial statements as at 31 December 2010. 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 balances, transactions and unrealized profit and loss arising from intercompany transactions, and dividends are eliminated on consolidation.

The excess of current loss attributable to minority shareholders of a subsidiary over their entitlements to the opening balance of shareholders' equity shall be charged to minority interests. A change in minority interests without loss of control is accounted for as an equity transaction.

For subsidiaries obtained through a business combination not involving entities under common control, the operating results and cash flows of the acquirees 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 combined will be recognized in consolidated financial statement from the beginning of the period during which the combination occurs. In preparing the comparative consolidated financial statements, 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.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

7. Cash and cash equivalents

Cash comprises cash on hand and deposits readily available for payments. Cash equivalents represent short-term highly liquid investments which are readily convertible to known amounts of cash, and subject to an insignificant risk of changes in value.

8. Foreign currency translation

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 those 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 capitalization of borrowing costs, 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 translations are recognized in current profit or loss or other comprehensive income.

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 profits, 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 periods 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 disposed, other comprehensive income relating to the foreign operation is transferred to current profit or loss. Partial disposal shall be recognized on a pro-rata basis.

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 by the fluctuation of exchange rates is presented as a separate line item of reconciliation in the cash flow statement.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. 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 has expired;

(2) The right of receiving cash flow generated by the financial assets is transferred, or an obligation of paying the full amount of cash flow received to third parties in a timely manner has been undertaken under "pass-through" agreements, where (a) substantially all risks and rewards of the ownership of such financial assets have been transferred, or (b) control over such financial assets has not been retained even though substantially all risks and rewards of the ownership of such financial assets have been neither transferred nor 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 differences recognized in profit or loss.

Conventional dealings in financial assets are recognised or derecognised under the trade day accounting method. Conventional dealings refer to the receipt or delivery of financial assets within periods stipulated by the law and according to usual practices. The trade day is the date on which the Group undertakes to buy or sell a financial asset.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Classification and valuation of financial assets

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

The subsequent measurement of financial assets is dependent on its classification:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise derivative financial assets and those designated at fair value through profit or loss at inception. Financial assets are classified as derivative 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 or loss. Dividends or interest income derived from financial assets at fair value through profit or loss are also recognized in current profit or loss.

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 and 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 or loss.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Classification and valuation of financial assets (continued)

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 other comprehensive income in 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. Dividends or interest income derived from available-for-sale financial assets is recognized in 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.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

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.

The subsequent measurement of financial assets is dependent on its classification:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise derivative financial liabilities and those designated at fair value through profit or loss at inception. Financial liabilities are classified as derivative 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 all realised or unrealised gain or loss are recognized in current period's profit or loss.

Other financial liabilities

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

Financial guarantee contracts

A financial guarantee contract is a contract under which the guarantor and the creditor agree that the guarantor shall assume the debts or liability in the event of default of the debtor. Financial guarantee contracts are initially recognized as liability 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: (i) the amount of the best estimates of the expenditure required to settle the present obligations at the balance sheet date; and (ii) the initial amount less accumulated amortization.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

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 re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. 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 that are not quoted in an active market and whose fair value cannot be reliably measured are carried at cost.

Any gains or losses arising from the change in fair value on derivatives are taken directly to the income statement, except for those falling under cash flow hedging, which shall be recognized in other comprehensive income.

Bonds cum warrants

Upon issuance, the Group determines in accordance with the terms of the bonds cum warrants whether such bonds cum warrants consist of both equity and liability components. For bonds cum warrants 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 recognized. Then the initial recognition of the equity component is determined by deducting the initial liability recognition amount from the overall issue price of the bonds cum warrants. Transaction costs are apportioned between liability and equity components 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 not remeasured in subsequent years.

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 without active market, the fair value is established by using valuation techniques. Valuation techniques include reference to most recent market prices used by knowledgeable and willing parties, reference to current fair value of other financial instrument with similar nature, discounted cash flow method and option valuation models.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Impairment of financial assets

The Group assesses the carrying amount of financial assets at the balance sheet date. 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, having 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 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 (namely the effective interest rate determined at initial recognition), taking into account the value of relevant collaterals. If floating interest rates are used, the current effective interest rate stipulated in the contract shall be adopted as the discount rate in calculating the present value of the future cash flows.

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

After the Group recognizes impairment loss of financial assets carried at amortized cost, if there is objective evidence that the financial assets' value recovered and the recovery is objectively related to an event occurring after the impairment is 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 or loss.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

***Impairment of financial assets* (continued)**

Available-for-sale financial assets (continued)

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. Fair value gains that arise after the impairment are directly recognized in other comprehensive income.

Assets carried at cost

If financial assets carried at cost are impaired, the impairment loss are recognized in profit or loss and measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

For long term equity investments measured using the cost method regulated in "ASBE No. 2 — Long-term equity investments" which have no quotation in an active market and whose fair value cannot be reliably measured, their impairment is also calculated in accordance with 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, it may either derecognize the financial asset and recognize any associated assets and liabilities if control of the financial asset has not been retained; or recognizes the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes an associated liability if control has been retained.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

10. Accounts Receivable

(1) Individually significant accounts receivable for which separate bad-debt provision is made

The Group conducts impairment tests in respect of its significant account receivables and makes provision for impairment when there is objective evidence of impairment. Objective evidence for impairment includes: (1) significant financial difficulties experienced by the debtor; (2) default on or non-payment of due interest or principal payments; (3) concessions made to the insolvent debtor by creditors owing to economic or legal considerations; (4) probable bankruptcy or other financial reorganisation of the debtor; (5) inability to recover the debt after repayments from the bankruptcy assets or the estate upon the bankruptcy or death of the debtor.

An account receivable is considered individually significant if it amounts to 0.1% of the total original value of all accounts receivable in aggregate.

(2) Accounts receivable for which collect bad debt provision is made

Individually insignificant accounts, for which there is no objective evidence under individual impairment tests warranting individual provision, are divided into different asset groups based on their credit risk characteristics, and each group is assessed in accordance with different policies to determine their impairment provision. The management divides trade receivables (other than those in respect of which individual asset impairment provision has been made) into the following asset groups as follows on the basis of credit risk rating and historical repayment records:

	Percentage of provision (%)
0–6 months	—
7–12 months	0–15
13–18 months	5–60
19–24 months	15–85
2–3 years	50–100
over 3 years	100

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

11. Inventories

Inventories include raw materials, materials sub-contracted for processing, work-in-progress, finished goods, materials for construction-in-progress and product deliveries.

Inventories are initially recorded at costs. Inventories' costs include purchasing costs, processing costs and other costs. Actual costs of goods delivered are recognized using the weighted moving average method. Materials for construction-in-progress include low-value consumables and packaging materials, which are amortised using the separate amortization method/one-off write-off 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 should 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.

12. Long-term equity 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 initial investment cost of long-term equity investments derived from business combination through the merger of companies under the common control is measured as the share of the carrying value of the owner's equity of the acquiree. The initial investment cost of long-term equity investments derived from business combination through the merger of companies not under the common control is measured at the acquisition costs (The initial investment cost of the merger of companies not under the common control through multiple transactions in different stages is measured at the sum of the carrying value of equity investments in the acquiree held prior to the date of acquisition and the cost of additional investment on the date of acquisition). Acquisition costs represent the sum of the fair values of assets paid, liabilities incurred or assumed and equity instruments issued by the acquirer. The initial investment cost of long-term equity investments acquired other than through business combination is determined in the following manner: where the acquisition is made by cash payment, the initial investment cost is measured at the actual cash payment plus expenses directly related to the acquisition of the long-term investment, tax and other necessary expenses. Where equity securities are issued as consideration, the initial investment cost is measured at the fair value of the equity securities. Where the acquisition is funded by investors, the initial investment cost is measured at the value stipulated in the investment contract or agreement, unless the value so agreed is deemed unfair.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

12. Long-term equity investments (continued)

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. Control is defined as the power to determine the financial and operational policies of a corporation so as to derive gains from the operations of such corporation.

When the cost method is used, long-term equity investments are measured at initial cost on acquisition. Other than prices actually paid upon the acquisition or cash dividends or profit included in the consideration which have been declared but not yet paid, cash dividends or profit declared by the invested enterprise are recognized as investment income for the current period. Impairment of long-term investments is considered in accordance with relevant asset impairment policies.

The equity method is used to account for long-term equity investments when the Group can jointly control or has significant influence over the invested entity. Joint control means sharing 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 influence 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, and the cost of long-term equity investment is adjusted accordingly.

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 Group's share of the investee's net profit or loss. When recognizing the Group'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 inter-transactions with associates and joint ventures attributed to investor which is calculated pro rata on the basis of share percentage (for loss from inter-transactions belonging to impairment loss, it shall be wholly recognized). When the invested enterprise declares profit appropriations or cash dividends, the carrying amount of investment is adjusted down by the Group's share of the profit appropriations and dividends. The Group 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 Group's net investment in the investee are reduced to zero, except to the extent that the Group has incurred obligations to assume additional losses. The Group 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.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

12. Long-term equity investments (continued)

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 or loss for the current period on a proportionate basis upon disposal.

For details of impairment test methods and impairment provision methods for long-term equity investments in subsidiaries, jointly-controlled entities and associates, please refer to Note II.23. For details of impairment test methods and impairment provision methods for other long-term equity investments not quoted in an active market and whose fair value cannot be reliably measured, please refer to Note II.9.

13. Fixed assets

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 the 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 conditions 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 rates are as follows

	Useful life	Estimated residual value ratio	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.

For details of impairment test methods and impairment provision methods for fixed assets, please refer to Note II.23.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

14. Construction in progress

Construction-in-progress is measured at the actual construction expenditures, 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.

For details of impairment test methods and impairment provision methods for construction in progress, please refer to Note II.23.

15. Borrowing costs

Borrowing costs are interest and other costs incurred by the Group in connection with the borrowings of funds, which include borrowing interest, amortisation of discount or premium on debt, other supplementary costs and certain foreign exchange differences that occurred from the borrowings in foreign currencies.

Borrowing costs directly attributable to the acquisition or construction of assets qualified for capitalization, 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. Other borrowing costs are charged to current profit or loss.

Capitalization of borrowing costs begins where:

(1) Capital expenditure has already happened;

(2) Borrowing expenses has already incurred;

(3) 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:

(1) 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.

(2) 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 construction resumes.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

16. Intangible assets

Intangible assets are recognised only when it is probable that economic benefits relating to such intangible;assets would flow into the Group and that their cost can be reliably measured. Intangible assets are initially measured at cost, provided that intangible assets which are acquired in a business combination and whose fair value can be reliably measured shall be separately recognized as intangible assets at fair value.

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 lives and amortization method for intangible assets with definite lives and makes adjustment when necessary.

The Group classifies the expenses 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 (including demonstration that the product derived from the intangible asset or the intangible asset itself will be marketable or, in the case of internal use, the usefulness of the intangible asset as such), the availability of technical and financial resources to complete the project and procure the use or sale of the intangible asset, and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

16. Intangible assets (continued)

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.

For details of impairment test methods and impairment provision methods for intangible assets, please refer to Note II.23.

17. Provisions

Other than contingent consideration in a business combination and contingent liabilities undertaken, the Group recognizes as provision an obligation that is related to contingent matters and fulfils all the following criteria:

(1) the obligation is a present obligation of the Group;

(2) the obligation would probably result in an outflow of economic resources from the Group;

(3) the obligation could be reliably measured.

Provisions are initially valued according to the best estimate of expenses on fulfilling the current liabilities, in connection with the risk, uncertainty and timing value of the currency. The book value of the provisions would be reassessed on every balance sheet date. The book value will be adjusted to the best estimated value if there is certain evidence that the current book value is not the best estimate.

18. Share-based payments

Share-based payments can be distinguished into equity-settled share-based payments and cash-settled share-based payments. Equity-settled share-based payments are transactions of the Group settled through the payment of shares of other equity instruments in consideration for receiving services.

Equity-settled share-based payments made in exchange for services rendered by employees are measured at the fair value of equity instruments granted to employees. Instruments which are vested immediately upon the grant are charged to relevant costs or expenses at the fair value on the date of grant and the capital reserve is credited accordingly. Instruments of which vesting is conditional upon completion of services or fulfillment of performance conditions are measured by recognizing services rendered during the period in relevant costs or expenses and crediting the capital reserve accordingly at the fair value on the date of grant according to the best estimates conducted by the Group at each balance sheet date during the pending period based on subsequent information such as latest updates on the change in the number of entitled employees and whether performance conditions have been fulfilled, and etc. The fair value of equity instruments is determined using the Black-Scholes option pricing model. For details see Note VII. Share-based payment.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

18. Share-based payments (continued)

The cost of equity-settled transactions is recognised, together with a corresponding increase in capital reserve, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period 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.

No expense is recognised for awards that do not ultimately vest, except where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other non-market conditions are satisfied.

Where the terms of an equity-settled share-based payment are modified, as a minimum, services obtained are 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 instrument granted, 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. Where employees or other parties are permitted to choose to fulfill non-vesting conditions but have not fulfilled during the pending period, equity-settled share-based payments are deemed cancelled. 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 new awards are treated as if they were a modification of the original award.

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 sales 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 sales of goods is determined according to amounts stipulated in contracts or agreements received or receivable from buyers, unless such amounts are deemed unfair. The receipt of amounts stipulated in contracts or agreements is recognized on a deferred basis. Those with a financing nature are measured at the fair value of amounts stipulated in contracts or agreements.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

19. Revenue (continued)

Revenue from the rendering of services

On the balance sheet date, when transaction result of the rendering of services could be measured reliably, related revenue from rendering of services is recognized according to the percentage of completion, otherwise revenue is recognized only to the extent of cost incurred and expected to be recoverable. The transaction result of the rendering 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 flow to the Group, the percentage of construction work and relevant cost incurred or to be 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 contract costs. Total revenue for the rendering of services is determined according to amounts stipulated in contracts or agreements received or receivable by workers, unless such amounts are deemed unfair.

Where the sales of goods and rendering of services are included in contracts or agreements between the Group and other enterprises, revenue is separately recognized according to the fair values of various sales items in the contracts, by reference to the aforesaid principles for revenue recognition.

Construction contracts

Construction contract revenue and cost are recognised by percentage of completion at the balance sheet date where the results of the contract could be reliably estimated, otherwise revenue is recognized on the basis of the actual contract cost amount which has been incurred and is expected to be recoverable. The results of the contract can be reliably estimated if it is probable that economic benefits relating to the contract will flow to the Group and the actually incurred contract cost can be clearly distinguished and reliably measured. For contracts with fixed prices, the following conditions should also be met: the total revenue of the contract can be reliably measured, and percentage of completion and outstanding cost for completion can be reliably estimated. The percentage of completion is based on the percentage of costs incurred to date on a contract relative to the estimated total contract costs. Total contract revenue includes initial income stipulated by the contract and income derived from contract modifications, compensation and rewards, and etc.

Interest income

Interest income is determined by the length of time for which the Group's cash is in use by other parties and the effective interest rate.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

20. Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. The grant is measured as the amount received or receivable where it takes the form of a cash asset, or at fair value where it is not a cash asset. Where the fair value cannot be reliably obtained, it should be measured at the nominal value. Government grants, relating to income and applied towards reimbursement of related costs or losses in subsequent periods, are recognized as deferred income and taken to current profit or loss for the period in which the related costs are recognized. Government grants, applied towards reimbursement of related costs or losses already incurred, are directly recognized in current profit or loss. Where the grant relates to an asset, it is recognized as a deferred income and allocated to the income statement over the expected useful life of the relevant asset by equal annual instalments. Where the grant is measured at nominal value, it is directly recognized in current profit or loss.

21. Income tax

Income taxes include current and deferred tax. Income taxes are recognized in current period's profit or loss as income tax expense or income tax benefit, except for the adjustment made for goodwill in a business combination and income tax from transactions or items that directly related to equity.

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 assets and liabilities 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 on the balance sheet date. 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 taxable temporary difference 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.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

21. 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 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 in accordance with relevant tax laws 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 carrying amount of deferred tax assets is reviewed at the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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.

22. Leases

Other than leases under which substantially all risks and rewards of ownership are transferred, which are classified as finance lease, all leases are classified as operating leases.

As lessee of operating leases

Rental expenses under operating leases are recognized as relevant asset costs or in current profit or loss on the straight-line basis over the lease term. Contingent rental is charged to current profit or loss when incurred.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

23. Impairment

The Group assesses impairment of assets other than inventories, deferred tax assets, financial assets and long-term equity investments under cost accounting which are not quoted in an active market and whose fair value cannot be reliably measured, 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. Intangible assets which are not yet ready for use are also tested annually for 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.

In connection with impairment tests for goodwill, the carrying value of goodwill arising from business combination is allocated to relevant cash generating units ("CGU") from the date of acquisition on a reasonable basis. If it is difficult to allocate such goodwill to a relevant CGU, it should be allocated to a relevant CGU group. A relevant CGU or CGU group is defined as one which can benefit from the synergies of the business combination and is not larger than the reporting segments determined by the Group.

In connection with impairment tests for CGUs or CGU groups that comprise goodwill, where indications of impairment exists in a CGU or CGU group related to goodwill, impairment tests should be performed first on CGUs or CGU groups that do not comprise goodwill and recognize impairment loss after estimating the recoverable amount. Then impairment tests on CGUs or CGU groups that comprise goodwill should be performed and the carrying value and recoverable amount should be compared. Where the recoverable amount is lower than the carrying value, the impairment loss should first be offset against the carrying value of the goodwill allocated to CGUs or CGU groups and then against assets in the CGUs or CGU groups other than goodwill in proportion to the weighting of these assets.

Previously recognised impairment losses are not reversed in subsequent periods.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

24. Employee benefits

Employee benefits represent all kinds of benefits (other than share-based payments) 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 contribution costs are charged as asset cost or to current profit or loss when incurred.

Defined benefits pension scheme

The Group provides certain employees, who joined the Group before 1 January 2002, with postretirement 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. The Group has not held any plan assets since the commencement of the defined benefits pension scheme, therefore it is not required to make any forecast on asset return.

25. Profit distribution

Cash dividend of the Company is recognized as liability after approval by the general meeting.

26. Related parties

A related party of a company is one who controls or jointly controls or exercises significant influence over that company or is, together with that company, under the control or joint control of another party.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

27. Segment reporting

The Group defines its operating segments on the basis of its internal organisational structure, management requirements and internal reporting system. The reporting segments and information to be disclosed in respect of each segment are determined on the basis of the operating segments.

An operating segment is an integral part of the Group satisfying all of the following conditions:

(1) being able to generated income and incur expenses in its day-to-day activities;

(2) the operating results of which can be assessed by the Company's management on a regular basis in order to make decisions about resource allocation and performance assessment;

(3) accounting information of such segment, such as financial conditions, results of operations and cash flow, can be obtained by the Group.

Two or more operating segments with similar economic characteristics and in fulfillment of certain conditions may be consolidated into one operating segment.

28. 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.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

28. Significant accounting judgements and estimates (continued)

Judgements

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

Revenue recognition

The Group's material revenue streams are the result of a wide range of activities, from custom design and installation over a period of time to a single delivery of equipment to a customer. The Group's networking solutions also cover a broad range of technologies and are offered on a global basis. As a result, our revenue recognition policies can differ depending on the level of customization within the solution and the contractual terms with the customer. Newer technologies within one of the Group's reporting segments may also have different revenue recognition policies, depending on, among other factors, the specific performance and acceptance criteria within the applicable 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 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 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:

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 items and/or whether delivered elements have standalone value to the customer. Changes to the Group's assessment of the accounting units in an arrangement and/or its ability to establish fair values could significantly change the timing of revenue recognition.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

28. Significant accounting judgements and estimates (continued)

Judgements (continued)

Revenue recognition (continued)

If objective and reliable evidence of fair value exists for all units of accounting in the contract, revenue is allocated to each unit of accounting or element based on relative fair values. In situations where there is objective and reliable evidence of fair value for all undelivered elements, but not for delivered elements, the residual method is used to allocate the contract consideration. Under the residual method, the amount of revenue allocated to delivered elements equals the total arrangement consideration less the aggregate fair value of any undelivered elements. Each unit of accounting is then accounted for under the applicable revenue recognition guidance. If sufficient evidence of fair value cannot be established for an undelivered element, revenue related to delivered elements is deferred until the earlier of when sufficient fair value is established and when all remaining elements have been delivered. Once there is only one remaining element to be delivered within the unit of accounting, the deferred revenue is recognized based on the revenue recognition guidance applicable to the last delivered element. For instance, where post-contract support is the last delivered element within the unit of accounting, the deferred revenue is recognized ratably over the remaining post-contract support term once post-contract support is the only undelivered element.

The Group's assessment of which revenue recognition guidance is appropriate for accounting for a deliverable also can involve significant judgement. For instance, the determination of whether software is more than incidental to hardware can impact on whether the hardware is accounted for based on software revenue recognition guidance or based on general revenue recognition guidance. This assessment could significantly impact the amount and timing of revenue recognition.

For elements related to customised network solutions and certain network build-outs, revenues are recognized under the ASBE No. 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.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

28. 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 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 have been transferred to the customer. For arrangements where the criteria for revenue recognition have not been met because legal title or the risk of loss on products was not transfer to the buyer until final payment had been received or where delivery had not occurred, revenue is deferred to a later period when title or the risk of loss passes either on delivery or on receipt of payment from the customer.

For further information on the Group's revenue recognition policies relating to our material revenue streams, please refer to Note II. 19 to the consolidated financial statements.

Deferred tax liabilities arising from dividend distribution

The Group is required to recognize deferred tax liabilities for taxable temporary differences relating to investments in certain subsidiaries, unless two conditions are met as follows: the Group is able to control the timing of the reversal of the temporary difference and such temporary difference is not likely to be reversed in the foreseeable future. The Group is of the view that it is able to fully control the timing of the reversal of the temporary difference arising from dividend distribution of the subsidiary and that the subsidiary will not make any profit distribution in the foreseeable future. Therefore, the Group has not recognised any deferred income tax liability. See Note V.16.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

28. 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 subsequent financial years, are discussed below.

Impairment of fixed assets, construction in progress and intangible assets

The Group assesses at each balance sheet date whether there is an indication that fixed assets, construction in progress and intangible assets 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. The recoverable amount is measured at the net amount of the fair value of the asset less disposal costs or the present value of the estimated future cash flow of the asset, whichever is higher. This requires an estimate of the expected future cash flows from the asset or the cash-generating unit to which the asset was allocated 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. The carrying amount is written down to the recoverable amount and the write-down is charged to current profit or loss, while corresponding provision for asset impairment is also made.

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, an 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.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

28. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Deferred development costs

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

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.

III. TAXATION

1. Principal tax items and tax rates

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

Notes to Financial Statements

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

III. TAXATION (continued)

2. Tax concession and approval documents

The Company is subject to an enterprise income tax rate of 15% for the years from 2008 to 2010 as a national-grade hi-tech enterprise incorporated in Shenzhen. Income tax rates for certain domestic subsidiaries of the Group are disclosed as follows:

Xi'an Zhongxing New Software Company Limited, recognized as a software enterprise in December 2009, has been entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Cai Shui [2008] No. 1.The current year is its second profitable year.

Nanjing Zhongxingxin Software Company Limited, recognized as a software enterprise in December 2009, has been entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Cai Shui [2008] No. 1. The current year is its first profitable year.

Shenzhen Zhongxing ICT Company Limited, recognized as a software enterprise in September 2009, has been entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Shen Guo Shui Nan Jian Mian Bei An (2009) No. 383. The current year is its second profitable year.

Shenzhen Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% for the current year as an Important Software Enterprise under the National Planning Layout in 2010.

ZTEsoft Technology Company Limited ("ZTEsoft") is subject to an enterprise income tax rate of 10% for the current year as an Important Software Enterprise under the National Planning Layout in 2010.

Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise.

Shenzhen Zhongxing Mobile Technology Company Limited is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise registered in Shenzhen Nanshan Hi-tech Industrial Park.

ZTE Microelectronics Technology Company Limited is subject to an enterprise income tax rate of 15% for the years from 2008 to 2010 as a national-grade hi-tech enterprise.

Shenzhen Lead Communication Equipment Company Limited is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise.

Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise registered in Shanghai Pudong New Area.

Notes to Financial Statements

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

III. TAXATION (continued)

2. Tax concession and approval documents (continued)

Shanghai Zhongxing Software Company Limited has been 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 years pursuant to Document Pu Shui Shi Wu Suo Jian (2007) No. 301 issued by the State Tax Bureau of Pudong New Area, Shanghai. The current year is its fourth profitable year and a 50% reduction in the enterprise income tax rate of 22% is applicable. The said company is also a national-grade hi-tech enterprise for the years from 2008 to 2010.

Nanjing Zhongxing Software Company Limited has been entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Document Suo Hui Zi Jian (2007) No. 4 issued by the State Tax Bureau of Yuhuatai District, Nanjing. The current year is its fifth profitable year and a 50% reduction in the enterprise income tax rate of 25% is applicable. The said company is also a national-grade hi-tech enterprise for the years from 2008 to 2010.

Xi'an Zhongxing Software Company Limited has been entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Document Shi Guo Shui Zhi Han (2008) No. 29 issued by the Direct Branch of the State Tax Bureau of Xi'an. The current year is its fourth profitable year and a 50% reduction in the enterprise income tax rate of 25% is applicable. The said company is also a national-grade hi-tech enterprise for the years from 2008 to 2010.

Xi'an Zhongxing Jing Cheng Communication Company Limited is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise.

Wuxi Zhongxing Optoelectronics Technologies Company Limited was registered at Wuxi State's Hi-tech Industrial Development Zone and is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise.

Notes to Financial Statements

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

IV. SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENT

1. Subsidiaries

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

Type of subsidiary	Place of registration	Legal representative	Nature of business	Registered capital	Scope of business	Organisation number	Effective capital contribution at year-end	Balance of other items effectively representing net investment	Percentage of Shareholding (%) Direct	Percentage of Shareholding (%) Indirect	Percentage of voting rights (%)	Whether statements are consolidated	Minority interests	Setoff of gain/loss attributable to minority interests
Subsidiaries acquired by way of incorporation or investment														
Shenzhen Zhongxing Software Company Limited	Shenzhen	Hou Weigui	Manufacturing	RMB50 million	Software development	75250847-2	RMB49 million	–	73%	25%	98%	Yes	97,168	46,664
ZTE (H.K.) Limited	Hong Kong	Nil	Information technology	HKD500 million	General services	Nil	HKD500 million	–	100%	–	100%	Yes	–	–
Shenzhen Zhongxing Telecom Technology & Service Company Limited	Shenzhen	Fan Qingfeng	Telecommunication services	RMB50 million	Communications engineering and technical services	76199710-8	RMB50 million	–	90%	10%	100%	Yes	6,010	4,568
ZTE Kangxun Telecom Company Limited	Shenzhen	Zhang Taifeng	Telecommunications and related equipment manufacturing	RMB50 million	Production of electronic products and accessories	279285671	RMB45 million	–	90%	–	90%	Yes	222,430	39,789
ZTE Telecom India Private Limited	India	Huang Dabin	Telecommunications and related equipment manufacturing	INR1,250 million	Production of telecommunication products and services	Nil	USD28.80 million	RMB246.46 million	100%	–	100%	Yes	–	–
ZTEsoft Technology Company Limited	Nanjing	Chen Jie	Manufacturing	RMB200 million	Systems project outsourcing	74537900-0	RMB45.04 million	–	76%	–	76%	Yes	177,540	41,315
Shenzhen Changfei Investment Company Limited	Shenzhen	Peng Ran	Investment	RMB30million	Industrial investment	75860475-6	RMB15.30 million	–	51%	–	51%	Yes	326,254	80,768
Shenzhen Zhongxing Mobile Technology Company Limited	Shenzhen	He Shiyou	Telecommunications and related equipment manufacturing	RMB39.583 million	Production and sale of telecommunication products	73205874-2	RMB31.67 million	–	80%	–	80%	Yes	83,746	21,009
Wuxi Zhongxing Optoelectronics Technologies Company Limited	Wuxi	Li Su	Telecommunications and related equipment manufacturing	RMB10 million	Development and sales of opto electronic products	71869554-2	RMB6.50 million	–	65%	–	65%	Yes	50,698	5,780
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited	Shanghai	Zeng Xuezhong	Telecommunication service	RMB10 million	Production and sale of telecommunication products	76223980-0	RMB5.10 million	–	51%	–	51%	Yes	38,209	12,283
Xi'an Zhongxing New Software Company Limited	Xi'an	Hou Weigui	Telecommunications and related equipment manufacturing	RMB600 million	Software development for telecommunication services	68385252-7	RMB600 million	–	100%	–	100%	Yes	–	–
ZTE (Hangzhou) Company Limited	Hangzhou	He Shiyou	Telecommunications and related equipment manufacturing	RMB100 million	Telecommunications and related Equipment manufacturing	68908984-1	RMB100 million	–	100%	–	100%	Yes	–	–
Shenzhen Zhongxing ICT Company Limited	Shenzhen	Tian Wenguo	Telecommunications and related equipment manufacturing	RMB30 million	Design and sales of corporate management hard/software products	68537795-0	RMB24 million	–	80%	–	80%	Yes	28,308	14,983

Notes to Financial Statements

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

IV. SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENT (continued)

2. Changes in the scope of consolidation

During 2010, the Group established the following new subsidiaries: tier-one subsidiaries including Shenzhen ZTE Capital Management Company Limited ("ZTE Capital") and ZTE (Heyuan) Company Limited; tier-two subsidiaries including Huizhou Changfei Investment Limited (惠州市長飛投資有限公司), Zhengzhou ZTE Telecommunications Technology Co., Ltd. (鄭州中興通訊技術有限責任公司), Changsha ZTEsoft Technology Co., Ltd. (長沙中興軟創軟件技術有限公司), Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise (深圳市中和春生壹號股權投資基金合夥企業) ("Chunsheng Fund") , Wuhan ZTE Software Co., Ltd. (武漢中興軟件有限責任公司), ZTE Do Brasil Industria Ltda, ZTE Cooperatief UA, ZTE (Uganda) Limited, ZTE Azerbaijan MMC, ZTE IOOO, ZTE Nepal Pvt. Ltd. and Aceland investments Limited; tier-three subsidiaries including Sanhe ZTE Software Co., Ltd. (三河中興軟件有限責任公司), ZTE BELGIUM, ZTE Austria GmbH, ZTE Singapore International PTE LTD and ZTE Hungary Kft. The Company and ZTE Capital in aggregate hold 31% equity interest in Chunsheng Fund. In accordance with the joint venture agreement, ZTE Capital exercises control over the decision-making of the operations of Chunsheng Fund as a general partner, therefore Chunsheng Fund has been incorporated in the consolidated financial statements. ZTEsoft (a subsidiary of the Company) accounts for 61% equity interest in Nanjing Piaoxun Network Technology Co., Ltd. ("Nanjing Piaoxun") (南京飄訊網絡科技有限公司). However, according to the bye-laws of Nanjing Piaoxun , ZTEsoft is entitled to a 20% voting right and is not in a position to unilaterally determine the financial and operational policies or to appoint or remove majority members of the board of directors of Nanjing Piaoxun. Therefore ZTEsoft does not have control over Nanjing Piaoxun and Nanjing Piaoxun is not consolidated.

Other than the newly established subsidiaries, the scope of consolidation was consistent with that of the previous year.

3. Exchange rates for major accounting items of the Group's overseas operating entities

	Average rate		Year-end rate	
	2010	2009	**2010**	2009
USD	**6.7255**	6.8314	**6.6227**	6.8282
EUR	**9.3018**	9.5399	**8.8065**	9.7971
HKD	**0.8657**	0.8813	**0.8509**	0.8805
GBP	**10.5981**	10.6955	**10.2182**	10.9780
INR	**0.1462**	0.1417	**0.1467**	0.1456
BRL	**3.9340**	3.3890	**3.9647**	3.9032
PKR	**0.0790**	0.0843	**0.0769**	0.0811
IDR	**0.0007**	0.0006	**0.0007**	0.0007

Notes to Financial Statements

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

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash

		2010			2009		
		Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
Cash on hand	RMB	**394**	**1.0000**	**394**	308	1.0000	308
	USD	**1,302**	**6.6227**	**8,623**	980	6.8282	6,692
	SAR	**183**	**1.7658**	**323**	671	1.8200	1,221
	EUR	**23**	**8.8065**	**203**	27	9.7971	265
	MRO	**4,459**	**0.0231**	**103**	8,922	0.0254	227
	DZD	**1,649**	**0.0873**	**144**	2,210	0.0918	203
	INR	**1,316**	**0.1467**	**193**	1,504	0.1456	219
	THB	**205**	**0.2193**	**45**	226	0.2041	46
	HKD	**39**	**0.8509**	**33**	19	0.8805	17
	Others			**7,333**			1,990
	Sub-total			**17,394**			11,188

		2010			2009		
		Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
Bank deposit	RMB	**7,392,454**	**1.0000**	**7,392,454**	5,692,778	1.0000	5,692,778
	USD	**765,760**	**6.6227**	**5,071,402**	835,116	6.8282	5,702,339
	HKD	**166,513**	**0.8509**	**141,686**	71,479	0.8805	62,937
	BRL	**21,909**	**3.9647**	**86,863**	59,475	3.9032	232,143
	PKR	**851,053**	**0.0769**	**65,446**	772,855	0.0811	62,679
	EGP	**26,396**	**1.1345**	**29,946**	26,700	1.2370	33,028
	IDR	**245,498,571**	**0.0007**	**171,849**	196,945,894	0.0007	137,862
	EUR	**137,026**	**8.8065**	**1,206,719**	129,183	9.7971	1,265,619
	DZD	**589,737**	**0.0873**	**51,484**	1,012,570	0.0918	92,954
	MYR	**26,665**	**2.1467**	**57,242**	7,828	1.9939	15,608
	ETB	**97,302**	**0.3940**	**38,337**	117,649	0.5295	62,295
	INR	**233,408**	**0.1467**	**34,241**	855,127	0.1456	124,506
	CAD	**9,125**	**6.6214**	**60,420**	1,782	6.5068	11,595
	SAR	**12,957**	**1.7658**	**22,879**	2,168	1.8200	3,946
	GBP	**1,353**	**10.2182**	**13,825**	1,673	10.9780	18,366
	THB	**69,476**	**0.2193**	**15,236**	100,897	0.2041	20,593
	RUB	**95,592**	**0.2169**	**20,734**	92,715	0.2258	20,935
	Others			**478,041**			504,451
	Sub-total			**14,958,804**			14,064,634

Notes to Financial Statements

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

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

1. Cash (continued)

		2010			2009		
		Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Other cash	RMB	204,128	1.0000	204,128	165,444	1.0000	165,444
	USD	30,479	6.6227	201,853	36,013	6.8282	245,905
	Others			1,028			9,637
	Sub-total			407,009			420,986
	Total			15,383,207			14,496,808

As at 31 December 2010, the Group's cash subject to ownership restriction amounted to RMB407,009,000 (31 December 2009: RMB420,986,000), including acceptance bill deposits of RMB180,048,000 (31 December 2009: RMB11,867,000), letter of credit deposits of RMB27,220,000 (31 December 2009: RMB163,214,000), deposit for guarantee letter of RMB27,891,000(31 December 2009: Nil) and risk compensation fund to be released within one year of RMB171,850,000 (31 December 2009: RMB245,905,000).

Under the loan agreements or factored trade receivables agreements between the Group and certain domestic banks, provisions are being made for a risk compensation fund at a mutually determined percentage based on the risk profile of the facilities concerned. The risk compensation fund shall be released on a pro-rata basis in respect of the facilities if there is no overdue principal or interest payment at the agreed final payment date, or when the principal and interest of the banking facilities have been fully settled. As at 31 December 2010, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB1,261,936,000 (31 December 2009: RMB854,264,000). Risk compensation fund to be released within one year amounting to RMB171,850,000 (31 December 2009: RMB245,905,000) was accounted for as cash subject to ownership restriction. Risk compensation fund to be released after one year amounting to RMB1,090,086,000(31 December 2009: RMB608,359,000) was accounted for as other non-current assets.

As at 31 December 2010, the Group's overseas currency deposits amounted to RMB2,779,314,000 (31 December 2009: RMB2,165,395,000).

Current bank deposits earn interest income based on current deposit interest rate. The period for short-term time deposits varies from 7 days to 12 months. The short-term time deposits, subject to the Group's cash needs, earn interest income based on corresponding time deposits interest rate. Time deposits with a term of over three months amounting to RMB71,099,000 (31 December 2009: Nil) were not included in cash and cash equivalents.

Notes to Financial Statements

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

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

2. Derivative financial assets/liabilities

	2010	2009
Derivative financial assets	**123,365**	—
Derivative financial liabilities	**(40,139)**	—

Counterparties of transactions giving rise to the above derivative financial instruments were reputable banks in the PRC and Hong Kong with credit ratings of A- or above.

3. Bills receivable

	2010	2009
Commercial acceptance bills	**354,070**	448,090
Bank acceptance bills	**935,807**	331,022
	1,289,877	779,112

As at 31 December 2010, there was no bill which had been transferred to trade receivables as a result of the issuers' default (31 December 2009: Nil). Bills which had been endorsed to other parties but not yet due as at the end of the year amounted to RMB2,854,000 (31 December 2009: RMB2,799,000).

As at 31 December 2010, commercial acceptance bills with a carrying value of RMB339,796,000 were discounted for short-term loans (31 December 2009: RMB17,095,000). As at 31 December 2010, bank acceptance bills with a carrying value of RMB70,400,000 were discounted for short-term loans (31 December 2009: Nil). As at 31 December 2010, no bills receivable were pledged as security for short term loans (31 December 2009: Nil).

As at 31 December 2010, there were no bills receivable due from shareholders or related parties holding 5% or more in the voting shares (31 December 2009: RMB850,000).

Notes to Financial Statements

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

V. 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 to 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.

	2010			2009		
	Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
RMB	**6,242,921**	**1.0000**	**6,242,921**	7,028,076	1.0000	7,028,076
USD	**868,888**	**6.6227**	**5,754,385**	771,881	6.8282	5,270,558
EUR	**216,816**	**8.8065**	**1,909,390**	114,092	9.7971	1,117,770
PKR	**1,685,706**	**0.0769**	**129,631**	1,461,344	0.0811	118,515
INR	**5,240,361**	**0.1467**	**768,761**	6,274,615	0.1456	913,584
Others			**2,758,837**			870,712
			17,563,925			15,319,215

Aging analysis of trade receivables was as follows:

	2010	2009
Within 1 year	**16,810,036**	15,048,672
1 to 2years	**1,453,857**	1,124,356
2 to 3 years	**708,457**	558,473
Over 3 years	**681,093**	330,491
	19,653,443	17,061,992
Less: bad debt provision for trade receivables	**2,089,518**	1,742,777
	17,563,925	15,319,215

Notes to Financial Statements

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

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

4. Trade receivables (continued)

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

	2010				2009			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
		Percentage		Percentage		Percentage		Percentage
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)
Individually significant and for which bad debt provision has been separately made	**522,638**	**3**	**522,638**	**100**	525,596	3	525,596	100
For which bad debt provision has been collectively made								
0–6months	**14,088,727**	**71**	**12,513**	**–**	12,800,651	75	5,828	–
7–12months	**2,721,309**	**14**	**158,268**	**6**	2,248,021	14	151,873	7
13–18months	**1,000,057**	**5**	**343,247**	**34**	715,569	4	420,038	59
19–24months	**453,800**	**2**	**232,676**	**51**	408,787	2	291,077	71
2–3years	**708,457**	**4**	**661,721**	**93**	206,693	1	191,690	93
Over 3years	**158,455**	**1**	**158,455**	**100**	156,675	1	156,675	100
	19,130,805	**97**	**1,566,880**	**8**	16,536,396	97	1,217,181	7
	19,653,443	**100**	**2,089,518**	**11**	17,061,992	100	1,742,777	10

As at 31 December 2010, bad debt provisions for trade receivables which were individually significant and individually tested were as follows:

	Book balance	Bad debt provision	Percentage of charge	Reason
Overseas carriers 1	243,325	243,325	100%	Debtor running into serious financial difficulties
Overseas carriers 2	198,581	198,581	100%	Debtor running into serious financial difficulties
Overseas carriers 3	80,732	80,732	100%	Debtor running into serious financial difficulties
	522,638	522,638		

There was no write-back or recovery of individually significant trade receivables, for which individual provision for bad debts had been made, in 2010 (2009: Nil).

	2010	2009
Total trade receivables from top five accounts	**7,508,659**	7,473,418
As a percentage of total trade receivables	**38.21%**	43.80%

The above trade receivables from top five accounts represent amounts receivable from third-party customers of the Group and were aged within 36 months.

Notes to Financial Statements

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

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

4. Trade receivables (continued)

As at 31 December 2010, trade receivables included amounts due from shareholders or related parties holding 5% or more in the voting shares amounting to RMB11,662,000 (31 December 2009: RMB13,385,000), accounting for 0.06% (31 December 2009: 0.08%) of the total amount of trade receivables. Please refer to Note VI. "The relationships and transactions with related parties". No bad debt provision was being made in respect of the aforesaid due from shareholders or related parties holding 5% or more in the voting shares.

Transfer of trade receivables that did not qualify for derecognition was separately classified as "Factored trade receivables" and "Bank advances on factored trade receivables" amounting to RMB3,016,569,000 (31 December 2009: RMB2,870,221,000)

As at 31 December 2010, trade receivables of the Group with a book value of RMB2,310,844,000 (31 December 2009: RMB114,678,000) were subject to ownership restriction as they were pledged as security for short-term loans.

5. Other receivables

Aging analysis of other receivables was as follows:

	2010	2009
Within 1 year	**1,195,542**	793,213
1 to 2 years	**172,501**	200,422
2 to 3 years	**13,522**	61,830
Over 3 years	**8,218**	4,364
	1,389,783	1,059,829
Less: Bad debt provision for other receivables	**—**	—
	1,389,783	1,059,829

	2010	2009
Total other receivables from top five accounts	**242,416**	69,118
As a percentage of total amounts of other receivables	**17.44%**	6.52%

The above other receivables from top five accounts represent other receivables from third-party entities and were aged within 36 months.

As at 31 December 2010, there were no other receivables due from shareholders or related parties holding 5% or more in the voting shares (31 December 2009: RMB8,607,000). Please refer to Note VI. "The relationships and transactions with related parties".

Notes to Financial Statements

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

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

6. Prepayments

Aging analysis of prepayments was as follows:

	2010		2009	
	Book balance	**Percentage (%)**	Book balance	Percentage (%)
Within 1 year	**449,664**	**100%**	355,422	100%

	2010	2009
Total prepayments from top five accounts	**71,534**	78,056
As a percentage of total amounts of prepayments	**15.91%**	21.96%

As at 31 December 2010, RMB2,134,000 (31 December 2009: RMB157,000) in the balance was prepayments made to shareholders or related parties holding 5% or more in the voting shares. Please refer to Note VI. "The relationships and transactions with related parties".

7. Inventories

	2010			2009		
	Book balance	**Provision For impairment**	**Carrying value**	Book balance	Provision For impairment	Carrying value
Raw materials	**3,627,397**	**152,535**	**3,474,862**	2,819,361	286,356	2,533,005
Materials under sub-contract processing	**106,443**	**2,408**	**104,035**	78,003	8,177	69,826
Work-in-progress	**1,260,110**	**7,696**	**1,252,414**	1,200,003	18,628	1,181,375
Finished goods	**2,741,856**	**211,415**	**2,530,441**	1,977,595	177,648	1,799,947
Dispatch of goods	**5,084,643**	**342,725**	**4,741,918**	4,001,837	261,190	3,740,647
	12,820,449	**716,779**	**12,103,670**	10,076,799	751,999	9,324,800

Please refer to Note V.17 for details of movements in the provision for impairment of inventory during the year.

Notes to Financial Statements

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

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

8. Amount due from/to customers for contract works

	2010	2009
Amount due from customers for contract works	**14,208,039**	11,388,496
Amount due to customers for contract works	**(2,772,669)**	(2,519,706)
	11,435,370	8,868,790
Contract costs incurred plus recognized profits (losses) to date	**46,715,030**	45,189,806
Less: estimated loss	**170,973**	625,992
progress billings	**35,108,687**	35,695,024
	11,435,370	8,868,790

Where estimated total contract costs exceed estimated total contract revenue, provision for estimated losses on the contract measured at the difference between the amount in excess and recognized losses on the contract should be made and charged to current profit or loss.

9. Available-for-sale financial assets

	2010	2009
Available-for-sale equity instruments	**342,706**	253,760

10. Long-term receivables

	2010	2009
Installment payments for the provision of telecommunication system construction projects	**660,873**	495,919
Less: Bad debt provision for long-term receivables	**93,429**	112,170
	567,444	383,749

Please refer to Note V.17 for details of movements in bad debt provision for long-term receivables.

Transfer of trade receivables not qualified for derecognition is separately reflected in "factored longterm trade receivables" and "Bank advances on factored trade receivables". The amount as at the end of the year was RMB4,972,718,000 (31 December 2009: RMB2,968,629,000).

Notes to Financial Statements

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

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

10. Long-term receivables (continued)

In prior year, the Company entered into a telecommunications system project with an African telecommunications operator with a total contract amount of USD1.5 billion. 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. Two government strategic banks in the PRC have agreed to factor these promissory notes pursuant to receivables purchase agreements (the "Agreement"). During the financing period, the banks will charge interest at LIBOR+1.5% or LIBOR+1.8% which will be shared by the Company and the telecommunications operator at a predetermined portion. If there is any delay in the payment by the telecommunications operator, the Company is not responsible for the related penalties. If there is default in the payment, the Company would bear the first 20% of default losses on the factored amount unless the Company breaches the Agreements or the factoring conditions are not satisfied. As at 31 December 2010, under the above arrangement, accounts receivable due from the customer amounted to RMB7,586,858,000 (2009: RMB6,082,427,000) among which RMB6,069,486,000 (2009: RMB4,865,942,000) has been derecognised from the consolidated statement of financial position as these receivables have fulfilled the derecognition conditions as stipulated in ASBEs No. 23. An associated liability of RMB1,517,372,000 (2009: RMB1,216,485,000) has been recognised in the consolidated statement of financial position to the extent of the Company's continuing involvement.

In addition, factored finance interest for future periods relating to the derecognition of trade receivables undertaken by the Company as at 31 December 2010 amounted to RMB504,380,000 (31 December 2009: RMB328,920,000), comprising RMB112,169,000 (31 December 2009: RMB73,868,000) due within one year and classified as other payables (see Note V.25) and RMB392,211,000 (31 December 2009: RMB255,052,000) due after one year and classified as other non-current liabilities (see Note V.30)

Notes to Financial Statements

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

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

11. Investments in jointly-controlled entities and associates

2010

	Type of enterprise	Place of registration	Legal representative	Nature of business	Registered capital	Organisation code
Jointly-controlled entities						
Bestel Communications Ltd	Company with limited liability	Republic of Cyprus	Wei Zaisheng	IT industry	CYP600,000	Nil
Associates						
Shenzhen Fudekang Electronics Company Limited	Company with limited liability	China	Wang Honghai	Machinery and electronic equipment wholesale trade	RMB6,000,000	78924272-7
Nationz Technologies Inc.	Company Limited by shares	China	Liu Jinping	Computer and related equipment manufacturing industry	RMB108,800,000	71528448-1
KAZNURTEL Limited Liability Company	Company with limited liability	Kazakhstan	Khairushev Askar	Computer and related equipment manufacturing industry	USD3,000,000	Nil
Wuxi Kaier Technology Company Limited	Company with limited liability	China	Li Su	Machinery equipment	RMB11,332,729	76828981-7
Shenzhen Zhongxing Xinyu FPC Company Limited	Company with limited liability	China	Zhang Taifeng	Machinery equipment	RMB22,000,000	75252829-7
Shenzhen Weigao Semiconductor Company Limited	Company with limited liability	China	Leng Qiming	Machinery equipment	RMB10,000,000	76346680-2
Shenzhen Decang Technology Company Limited	Company with limited liability	China	Wu Jun	Machinery equipment	RMB2,500,000	77162861-3
深圳市聚飛光電有限公司	Company Limited by shares	China	Xing Qibin	Machinery equipment	RMB59,540,000	77987106-0
ZTE Software Technology (Nanchang) Company Limited	Company with limited liability	China	Hong Bo	Computer Application Services	RMB15,000,000	77585307-6
Shenzhen Smart Electronics Company Limited	Company with limited liability	China	Chai Zhiqiang	Machinery equipment	HKD30,000,000	77412852-6
Zhongxing Energy Company Limited	Company with limited liability	China	Hou Weigui	Energy service	RMB1,290,000,000	67055270-1
思卓中興（杭州）科技有限公司	Company with limited liability	China	David Khidasheli	Sales and R&D of communications equipment	USD1,000,000	67843164-8
北京中鼎盛安科技有限公司	Company with limited liability	China	Li Weixing	Computer Application Services	RMB4,000,000	67574463-0
上海中興群力信息科技有限公司	Company with limited liability	China	Yang Ming	Computer and related equipment manufacturing industry	RMB5,000,000	69727154-7
上海泰捷通信技術有限公司	Company with limited liability	China	Wang Jianrong	Communications products and related services	RMB10,000,000	68734538-9
深圳市偉文電氣有限公司	Company with limited liability	China	Zhu Weimin	Manufacturing and sales of communications related equipment	RMB500,000	69042472-3
上海與德通訊技術有限公司	Company with limited liability	China	Huang Yazhen	communications industry and related businesses	RMB1,250,000	56310423-3
廣州市鴻昌隆實業有限公司	Company with limited liability	China	Jiang Yongjun	Sales, processing and computer applications	RMB1,800,000	61869998-4
Nanjing Piaoxun Network Technology Company Limited	Company with limited liability	China	Zheng Weijie	Computer Application Services	RMB870,000	55886577-5

Notes to Financial Statements

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

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

11. Investments in jointly-controlled entities and associates (continued)

2010 (continued)

	Total assets Closing balance	Total liabilities Closing balance	Total net assets Closing balance	Operating revenue Amount for the year	Net profit Amount for the year
Jointly-controlled entities					
Bestel Communications Ltd	4,606	96	4,510	–	–
Associates					
Shenzhen Fudekang Electronics Company Limited	38,416	28,610	9,806	72,157	1,710
Nationz Technologies Inc.	2,866,438	163,964	2,702,474	702,373	180,376
KAZNURTEL Limited Liability Company	7,164	2,109	5,055	–	–
Wuxi Kaier Technology Company, Limited	124,176	86,573	37,603	216,591	5,744
Shenzhen Zhongxing Xinyu FPC Company Limited	135,621	91,808	43,813	135,459	14,483
Shenzhen Weigao Semiconductor Company Limited	32,554	20,897	11,657	186,002	6,512
Shenzhen Decang Technology Company Limited	182,529	120,254	62,275	231,156	1,556
深圳市聚飛光電有限公司	287,088	104,274	182,814	287,693	65,143
ZTE Software Technology (Nanchang) Company Limited	31,031	94,151	(63,120)	22,465	(1,191)
Shenzhen Smart Electronics Company Limited	68,670	37,543	31,127	160,549	673
Zhongxing Energy Company Limited	1,254,585	132,300	1,122,285	6,771	(78,828)
思卓中興（杭州）科技有限公司	4,760	4	4,756	–	(999)
北京中鼎盛安科技有限公司	981	126	855	–	(1,410)
上海中興群力信息科技有限公司	4,916	–	4,916	–	(79)
上海泰捷通信技術有限公司	32,593	19,587	13,006	35,356	2,925
深圳市偉文電氣有限公司	993	622	371	–	(128)
上海與德通訊技術有限公司	2,623	441	2,182	–	(819)
廣州市鴻昌隆實業有限公司	5,568	4,335	1,233	5,528	(38)
Nanjing Piaoxun Network Technology Company Limited	533	3	530	–	(340)

Nationz Technologies, Inc. ("Nationz Technologies"), an associate of the Company, was listed on ChiNext of Shenzhen Stock Exchange in April 2010 by way of an initial public offering of shares. The shareholding percentage of the 21,760,000 shares in Nationz Technologies held by the Company was reduced from 26.67% to 20% as a result of the initial offering of shares. As at the close of trading on 31 December 2010, Nationz Technologies closed at RMB128.88 per share and the value of the Company's investment in this associate was RMB2,804,429,000.

Notes to Financial Statements

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

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

11. Investments in jointly-controlled entities and associates (continued)

2009

	Type of enterprise	Place of registration	Legal representative	Nature of business	Registered capital	Organisation code
Jointly-controlled entities						
Bestel Communications Ltd	Company with limited liability	Republic of Cyprus	Wei Zaisheng	IT industry	CYP600,000	Nil
Associates						
Shenzhen Fudekang Electronics Company Limited	Company with limited liability	China	Wang Honghai	Machinery and electronic equipment wholesale trade	RMB6,000,000	78924272-7
Nationz Technologies Inc.	Company Limited by shares	China	Liu Jinping	Computer and related equipment manufacturing industry	RMB81,600,000	71528448-1
KAZNURTEL Limited Liability Company	Company with limited liability	Kazakhstan	Khairushev Askar	Computer and related equipment manufacturing industry	USD3,000,000	Nil
Wuxi Kaier Technology Company Limited	Company with limited liability	China	Li Su	Machinery equipment	RMB11,332,729	76828981-7
Shenzhen Zhongxing Xinyu FPC Company Limited	Company with limited liability	China	Zhang Taifeng	Machinery equipment	RMB11,000,000	75252829-7
Shenzhen Weigao Semiconductor Company Limited	Company with limited liability	China	Leng Qiming	Machinery equipment	RMB10,000,000	76346680-2
Shenzhen Decang Technology Company Limited	Company with limited liability	China	Wu Jun	Machinery equipment	RMB2,500,000	77162861-3
深圳市聚飛光電有限公司	Company with limited liability	China	Xing Qibin	Machinery equipment	RMB20,000,000	77987106-0
ZTE Software Technology (Nanchang) Company Limited	Company with limited liability	China	Hong Bo	Computer Application Services	RMB15,000,000	77585307-6
Shenzhen Smart Electronics Company Limited	Company with limited liability	China	Chai Zhiqiang	Machinery equipment	HKD30,000,000	77412852-6
深圳市鼎力網絡有限公司	Company with limited liability	China	Zhu Weimin	Communications equipment manufacturing	RMB10,000,000	Nil
WANAAG Communications Limited	Company with limited liability	Hong Kong	Zhou Susu	Communications services	USD100,000	Nil
Zhongxing Energy Company Limited	Company with limited liability	China	Hou Weigui	Energy service	RMB1,290,000,000	67055270-1
思卓中興（杭州）科技有限公司	Company with limited liability	China	David Khidasheli	Sales and R&D of communications equipment	USD1,000,000	67843164-8
北京中鼎盛安科技有限公司	Company with limited liability	China	Li Weixing	Computer Application Services	RMB1,000,000	67574463-0
上海中興群力信息科技有限公司	Company with limited liability	China	Yang Ming	Sales and R&D of communications equipment	RMB5,000,000	69727154-7
Shenzhen Hongde Batteries Company Limited	Company with limited liability	China	Hua Wei	Manufacturing of communications related equipment	RMB15,000,000	Nil
上海泰捷通信技術有限公司	Company with limited liability	China	Wang Jian Rong	Communications products and related	RMB10,000,000	68734538-9

Notes to Financial Statements

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

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

11. Investments in jointly-controlled entities and associates (continued)

2009 (continued)

	Total assets Closing balance	Total liabilities Closing balance	Total net assets Closing balance	Operating revenue Amount for the year	Net profit Amount for the year
Jointly-controlled entities					
Bestel Communications Ltd	4,606	96	4,510	—	—
Associates					
Shenzhen Fudekang Electronics Company Limited	35,454	27,239	8,215	55,659	2,851
Nationz Technologies Inc.	341,407	119,556	221,851	465,848	116,944
KAZNURTEL Limited Liability Company	7,164	2,109	5,055	—	—
Wuxi Kaier Technology Company Limited	103,212	71,312	31,900	185,499	4,813
Shenzhen Zhongxing Xinyu FPC Company Limited	105,240	72,097	33,143	109,464	6,275
Shenzhen Weigao Semiconductor Company Limited	19,540	14,395	5,145	33,021	273
Shenzhen Decang Technology Company Limited	161,771	101,051	60,720	223,588	10,783
深圳市聚飛光電有限公司	196,622	68,524	128,098	179,236	46,267
ZTE Software Technology (Nanchang) Company Limited	34,477	96,406	(61,929)	8,035	(51,614)
Shenzhen Smart Electronics Company Limited	40,717	10,263	30,454	97,651	(9,572)
深圳市鼎力網絡有限公司	6,956	563	6,393	1,678	(2,055)
WANAAG Communications Limited	1,151	2,130	(979)	—	(267)
Zhongxing Energy Company Limited	1,204,213	3,102	1,201,111	9	(65,548)
思卓中興（杭州）科技有限公司	5,734	1	5,733	—	(925)
北京中鼎盛安科技有限公司	326	1,060	(734)	—	(895)
上海中興群力信息科技有限公司	5,009	15	4,994	—	(5)
Shenzhen Hongde Batteries Company Limited	93,479	66,410	27,069	108,174	12,070
上海泰捷通信技術有限公司	27,510	17,429	10,081	7,869	81

12. Long-term equity investments

		2010	2009
Equity method			
Jointly-controlled entities	(1)	**2,255**	2,255
Associates	(2)	**915,734**	438,027
		917,989	440,282

Notes to Financial Statements

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

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

12. Long-term equity investments (continued)

2010

(1) *Jointly-controlled entities*

	Investment cost	Opening balance	Addition/ reduction during the year	Closing balance	Shareholding percentage (%)	Percentage of voting rights (%)	Cash dividend for the year
Bestel Communications Ltd.	2,050	2,255	–	2,255	50.00%	50.00%	–

(2) *Associates*

	Investment cost	Opening balance	Addition/ reduction during the year	Closing balance	Shareholding percentage (%)	Percentage of voting rights (%)	Cash dividend for the year
Shenzhen Fudekang Electronics Company Limited	1,800	2,464	478	2,942	30.00%	30.00%	–
Nationz Technologies Inc.	31,559	61,128	479,367	540,495	20.00%	20.00%	–
KAZNURTEL Limited Liability Company	3,988	2,477	–	2,477	49.00%	49.00%	–
Wuxi Kaier Technology Company Limited	3,500	10,601	1,774	12,375	30.88%	30.88%	–
Shenzhen Zhongxing Xinyu FPC Company Limited	5,000	7,531	2,426	9,957	22.73%	22.73%	4,375
Shenzhen Weigao Semiconductor Company Limited	4,000	2,058	2,605	4,663	40.00%	40.00%	–
Shenzhen Decang Technology Company Limited	750	18,216	467	18,683	30.00%	30.00%	–
深圳市聚飛光電有限公司	4,500	27,694	11,830	39,524	21.62%	21.62%	1,980
ZTE Software Technology (Nanchang) Company Limited	4,500	–	–	–	30.00%	30.00%	–
Shenzhen Smart Electronics Company Limited	7,051	9,136	202	9,338	30.00%	30.00%	–
深圳市鼎力網絡有限公司	3,500	2,077	(2,077)	–	35.00%	35.00%	–
WANAAG Communications Limited	351	139	(139)	–	45.00%	45.00%	–
Zhongxing Energy Company Limited	300,000	280,257	(18,335)	261,922	23.26%	23.26%	–
思卓中興（杭州）科技有限公司	3,345	2,804	(490)	2,314	49.00%	49.00%	–
北京中鼎盛安科技有限公司	1,960	–	779	779	49.00%	49.00%	–
上海中興群力信息科技有限公司	2,000	1,998	(31)	1,967	40.00%	40.00%	–
Shenzhen Hongde Batteries Company Limited	3,000	5,414	(5,414)	–	6.00%	6.00%	1,200
上海泰捷通訊技術有限公司	4000	4,033	1,170	5,203	40.00%	40.00%	–
深圳市偉文電氣有限公司	175	–	130	130	30.00%	30.00%	–
上海與德通訊技術有限公司	2,000	–	2,000	2,000	20.00%	20.00%	–
廣州市鴻昌隆實業有限公司	432	–	432	432	35.00%	35.00%	–
Nanjing Piaoxun Network Technology Company Limited	533	–	533	533	61.00%	20.00%	–
		438,027	477,707	915,734			7,555

Notes to Financial Statements

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

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

12. Long-term equity investments (continued)

(2) Associates (continued)

As the Group is not liable to any additional losses incurred by ZTE Software Technology (Nanchang) Company Limited, impairment to the long-term equity investment ceases upon zero balance when the net loss incurred by the aforesaid investee was recognized. The Group's investment losses for the current year and cumulative unrecognized investment losses amounted to RMB357,000 (2009: RMB12,086,000) and RMB18,936,000 (2009: RMB19,379,000).

2009

(1) Jointly-controlled entities

	Investment cost	Opening balance	Addition/ reduction during the year	Closing balance	Shareholding percentage (%)	Percentage of voting rights (%)	Cash dividend for the year
Bestel Communications Ltd.	2,050	2,255	–	2,255	50%	50%	–

(2) Associates

	Investment cost	Opening balance	Addition/ reduction during the year	Closing balance	Shareholding percentage (%)	Percentage of voting rights (%)	Cash dividend for the year
Shenzhen Fudekang Electronics Company Limited	1,800	3,824	(1,360)	2,464	30%	30%	900
Nationz Technologies Inc.	31,559	27,457	33,510	60,967	26.67%	26.67%	–
KAZNURTEL Limited Liability Company	3,988	2,477	–	2,477	49%	49%	–
Wuxi Kaier Technology Company, Limited	3,500	9,115	1,486	10,601	30.88%	30.88%	–
Shenzhen Zhongxing Xinyu FRC Company, Limited	2,500	6,074	1,457	7,531	22.73%	22.73%	–
Shenzhen Weigao Semiconductor Company, Limited	4,000	1,949	109	2,058	40%	40%	–
Shenzhen Decang Technology Company Limited	750	15,428	2,788	18,216	30%	30%	450
深圳市聚飛光電有限公司	4,500	15,313	12,381	27,694	22.5%	22.5%	–
ZTE Software Technology (Nanchang) Company Limited	4,500	3,398	(3,398)	–	30%	30%	–
Shenzhen Smart Electronics Company, Limited	7,051	14,673	(5,537)	9,136	30%	30%	2,700
深圳市鼎力網絡有限公司	3,500	2,957	(719)	2,238	35%	35%	–
WANAAG Communications Limited	351	139	–	139	45%	45%	–
Zhongxing Energy Company Limited	300,000	55,503	224,754	280,257	23.26%	23.26%	–
思卓中興（杭州）科技有限公司	3,345	3,292	(488)	2,804	49%	49%	–
北京中鼎盛安科技有限公司	490	79	(79)	–	49%	49%	–
Nanchang Xingfei Technology Company Limited	4,500	4,500	(4,500)	–	30%	30%	–
上海中興群力信息科技有限公司	2,000	–	1,998	1,998	40%	40%	–
Shenzhen Hongde Batteries Company Limited	3,000	–	5,414	5,414	20%	20%	–
上海泰捷通訊技術有限公司	4,000	–	4,033	4,033	40%	40%	–
		166,178	271,849	438,027			4,050

Notes to Financial Statements

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

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

13. Fixed Assets

2010

	Opening balance	Additions during the year	Reductions during the year	Exchange rate adjustments	Closing balance
Cost					
Buildings	2,412,087	1,425,904	(419)	(1,435)	3,836,137
Electronic equipment	2,493,902	702,868	(277,641)	(10,477)	2,908,652
Machinery equipment	2,357,788	476,917	(51,861)	(42,918)	2,739,926
Vehicles	315,721	57,961	(15,645)	(3,118)	354,919
Other equipment	47,818	101,166	(6,920)	(2,396)	139,668
	7,627,316	2,764,816	(352,486)	(60,344)	9,979,302
Accumulated depreciation					
Buildings	360,891	108,675	(244)	(119)	469,203
Electronic equipment	1,365,534	413,151	(230,611)	(3,712)	1,544,362
Machinery equipment	1,033,802	274,340	(45,577)	(16,154)	1,246,411
Vehicles	124,115	39,311	(11,834)	(1,496)	150,096
Other equipment	28,441	24,061	(5,096)	(1,681)	45,725
	2,912,783	859,538	(293,362)	(23,162)	3,455,797
Net book value					
Buildings	2,051,196	1,317,229	(175)	(1,316)	3,366,934
Electronic equipment	1,128,368	289,717	(47,030)	(6,765)	1,364,290
Machinery equipment	1,323,986	202,577	(6,284)	(26,764)	1,493,515
Vehicles	191,606	18,650	(3,811)	(1,622)	204,823
Other equipment	19,377	77,105	(1,824)	(715)	93,943
	4,714,533	1,905,278	(59,124)	(37,182)	6,523,505

Notes to Financial Statements

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

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

13. Fixed Assets (continued)

2009

	Opening balance (Restated)	Additions during the year	Reductions during the year	Exchange rate adjustments	Closing balance (Restated)
Cost					
Buildings	2,066,589	423,136	(77,469)	(169)	2,412,087
Electronic equipment	2,142,344	507,192	(156,480)	846	2,493,902
Machinery equipment	1,963,786	468,438	(70,447)	(3,989)	2,357,788
Vehicles	281,730	50,635	(17,344)	700	315,721
Other equipment	34,340	14,246	(2,371)	1,603	47,818
	6,488,789	1,463,647	(324,111)	(1,009)	7,627,316
Accumulated depreciation					
Buildings	320,214	74,920	(34,225)	(18)	360,891
Electronic equipment	1,120,938	389,518	(145,480)	558	1,365,534
Machinery equipment	822,193	256,331	(42,791)	(1,931)	1,033,802
Vehicles	102,951	32,745	(11,710)	129	124,115
Other equipment	19,417	9,324	(916)	616	28,441
	2,385,713	762,838	(235,122)	(646)	2,912,783
Net book value					
Buildings	1,746,375	348,216	(43,244)	(151)	2,051,196
Electronic equipment	1,021,406	117,674	(11,000)	288	1,128,368
Machinery equipment	1,141,593	212,107	(27,656)	(2,058)	1,323,986
Vehicles	178,779	17,890	(5,634)	571	191,606
Other equipment	14,923	4,922	(1,455)	987	19,377
	4,103,076	700,809	(88,989)	(363)	4,714,533

Depreciation for 2010 amounted to RMB859,538,000 (2009: RMB762,838,000). Transfer from construction in progress to fixed assets amounted to RMB1,628,764,000 (2009: RMB521,624,000) at cost.

As at 31 December 2010, no houses or buildings were pledged as security for the preservation of properties subject to legal proceedings (31 December 2009: Nil). Houses and buildings with a book value of RMB3,916,000 (31 December 2009: RMB7,490,000) were under ownership restriction. As at 31 December 2010, machinery and equipment with a book value of RMB370,285,000 (31 December 2009: RMB417,508,000) was under ownership restriction.

As at 31 December 2010, there were no retired fixed assets or idle fixed assets pending disposal (31 December 2009: Nil).

Notes to Financial Statements

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

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

13. Fixed Assets (continued)

As at 31 December 2010, the Group was in the process of applying for property ownership certificate for buildings in Shenzhen, Nanjing, Shanghai and Xi'an in China with a net book value of approximately RMB2,563,359,000 (31 December 2009: RMB1,442,206,000).

The balance of fixed asset impairment provision represents retrospective depreciation charge made as a result of the change in asset life made in the previous year. The opening and closing balances of fixed asset impairment provision for 2009 were restated as a result and transferred to cumulative depreciation of fixed assets.

14. Construction in progress

2010

	Budget	Opening balance	Addition during the year	Transferred to fixed assets	Closing balance	Source of funds	Project completion (%)/progress
Liuxiandong ZTE Industrial Park Phase I	1,000,000	90,820	5,446	(26,114)	70,152	Internal resources	100%
Nanjing R&D centre	Nil	317,565	412,311	(687,683)	42,193	Internal resources	
Shanghai R&D Phase II	Nil	63,589	87,719	(127,500)	23,808	Internal resources	
Xi'an Technology Park Phase II	Nil	117,420	57,413	(170,262)	4,571	Internal resources	
Staff quarters	Nil	213,456	562,978	(152,506)	623,928	Internal resources	
Sanya R&D base	Nil	–	1,123	–	1,123	Internal resources	
Equipment installation	Nil	336,218	31,209	(304,559)	62,868	Internal resources	
Xi'an District 2 Phase I	Nil	–	21,408	–	21,408	Internal resources	
Xi'an Technology Park Site A10	Nil	–	80,894	–	80,894	Internal resources	
Technology Park C3 R&D Centre	Nil	–	38,362	–	38,362	Internal resources	
Others	Nil	193,667	143,905	(160,140)	177,432	Internal resources	
Total:		1,332,735	1,442,768	(1,628,764)	1,146,739		

Notes to Financial Statements

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

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

14. Construction in progress (continued)

2009

(Restated)	Budget	Opening balance	Addition during the year	Transferred to fixed assets	Closing balance	Source of funds	Project completion (%)/progress
Liuxiandong ZTE Industrial Park Phase I	1,000,000	151,726	210,052	(270,958)	90,820	Internal resources	90%
Shanghai Phase II	Nil	52,797	10,792	–	63,589	Internal resources	
Xi'an Technology Park Phase II	Nil	22,450	94,970	–	117,420	Internal resources	
Nanjing R&D Centre	Nil	103,146	214,419	–	317,565	Internal resources	
Equipment installation	Nil	303,141	150,685	(117,608)	336,218	Internal resources	
Staff quarters	Nil	793	212,663	–	213,456	Internal resources	
Others	Nil	183,033	143,692	(133,058)	193,667	Internal resources	
		817,086	1,037,273	(521,624)	1,332,735		

As at 31 December 2010, there was no capitalized interest in the balance of the construction in progress (31 December 2009 :Nil).

Notes to Financial Statements

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

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

15. Intangible assets

2010

	Opening balance	Additions during the year	Reductions during the year	Closing balance
Cost				
Software	344,339	59,956	(15,078)	389,217
Technology know-how	5,032	2,227	(75)	7,184
Land use right	555,335	272,239	–	827,574
Operating concessions	94,504	674	(1,021)	94,157
	999,210	335,096	(16,174)	1,318,132
Accumulated amortisation				
Software	283,304	37,948	(12,744)	308,508
Technology know-how	2,168	1,868	(32)	4,004
Land use right	34,262	11,760	–	46,022
Operating concessions	59,381	3,352	(747)	61,986
	379,115	54,928	(13,523)	420,520
Net book value				
Software	61,035	22,008	(2,334)	80,709
Technology know-how	2,864	359	(43)	3,180
Land use right	521,073	260,479	–	781,552
Operating concessions	35,123	(2,678)	(274)	32,171
	620,095	280,168	(2,651)	897,612
Provision for impairment				
Software	–	–	–	–
Technology know-how	–	–	–	–
Land use right	6,322	–	–	6,322
Operating concessions	–	–	–	–
	6,322	–	–	6,322
Book Value				
Software	61,035	22,008	(2,334)	80,709
Technology know-how	2,864	359	(43)	3,180
Land use right	514,751	260,479	–	775,230
Operating concessions	35,123	(2,678)	(274)	32,171
	613,773	280,168	(2,651)	891,290

Notes to Financial Statements

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

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

15. Intangible assets (continued)

2009

	Opening balance	Additions during the year	Reductions during the year	Closing balance
	(Restated)			(Restated)
Cost				
Software	337,632	24,566	(17,859)	344,339
Technology know-how	5,032	—	—	5,032
Land use right	480,273	75,062	—	555,335
Operating concessions	94,530	—	(26)	94,504
	917,467	99,628	(17,885)	999,210
Accumulated amortisation				
Software	262,638	38,474	(17,808)	283,304
Technology know-how	1,454	714	—	2,168
Land use right	1,821	32,441	—	34,262
Operating concessions	56,148	3,235	(2)	59,381
	322,061	74,864	(17,810)	379,115
Net book value				
Software	74,994	(13,908)	(51)	61,035
Technology know-how	3,578	(714)	—	2,864
Land use right	478,452	42,621	—	521,073
Operating concessions	38,382	(3,235)	(24)	35,123
	595,406	24,764	(75)	620,095
Provision for impairment				
Software	—	—	—	—
Technology know-how	—	—	—	—
Land use right	6,322	—	—	6,322
Operating concessions	—	—	—	—
	6,322	—	—	6,322
Book Value				
Software	74,994	(13,908)	(51)	61,035
Technology know-how	3,578	(714)	—	2,864
Land use right	472,130	42,621	—	514,751
Operating concessions	38,382	(3,235)	(24)	35,123
	589,084	24,764	(75)	613,773

Notes to Financial Statements

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

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

15. Intangible assets (continued)

Amortisation of intangible assets in 2010 amounted to RMB54,928,000 (2009: RMB74,864,000).

At 31 December 2010, intangible assets with a book value of RMB2,444,000 (31 December 2009:RMB4,140,000) were subject to ownership restriction.

As at 31 December 2010, the Group was in the process of obtaining the land use right certificate of land blocks located in Shenzhen, Xi'an, Sanya and Nanjing in the PRC, with a net carrying value of approximately RMB497,717,000 (31 December 2009: RMB293,917,000).

Provision for impairment of intangible assets incurred for the retrospective amortisation charge made as a result of the change in asset life made in the previous year. The opening and closing balances of intangible assets impairment provision for 2009 were restated as a result and transferred to cumulative amortisation of intangible assets.

Deferred development costs are analysed as follows:

2010

	Opening balance	**Additions during the year**	**Reductions during the year**	**Closing balance**
Handsets	**167,672**	**59,572**	**40,195**	**187,049**
System Products	**610,703**	**777,082**	**108,330**	**1,279,455**
	778,375	**836,654**	**148,525**	**1,466,504**

2009

	Opening balance	Additions during the year	Reductions during the year	Closing balance
Handsets	96,246	92,850	21,424	167,672
System Products	379,774	309,923	78,994	610,703
	476,020	402,773	100,418	778,375

Deferred development costs accounted for 10.6% of total research and development costs in 2010 (2009: 6.5%).

Notes to Financial Statements

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

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

16. Deferred tax assets/liabilities

Deferred tax assets and deferred tax liabilities were not presented as a net amount after offsetting:

Deferred tax assets and liabilities recognised:

	2010	2009
Deferred tax assets		
Unrealised profits arising on consolidation	**103,176**	135,080
Provision for impairment in inventory	**48,458**	88,284
Foreseeable contract losses	**12,231**	92,439
Provision for warranties and returned goods	**69,452**	29,428
Provision for retirement benefits	**6,985**	5,704
Deductible tax losses	**180,796**	42,450
Amortisation of deferred development costs	**3,235**	—
Overseas taxes pending deduction	**230,912**	250,533
	655,245	643,918

	2010	2009
Deferred tax liabilities		
Changes in the fair value of tradable financial assets	**(23,119)**	—
Deemed disposal gain in associates	**(66,048)**	—
Capitalisation of development costs	**—**	(3,924)
	(89,167)	(3,924)

Unrecognised deferred tax assets:

	2010	2009
Deductible tax losses	**531,874**	423,141

Notes to Financial Statements

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

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

16. Deferred tax assets/liabilities (continued)

Unrecognized tax losses expire in the following years:

	2010	2009
2010	**—**	21,348
2011	**6,044**	6,044
2012	**14,104**	14,104
2013	**3,650**	—
After 2013	**508,076**	381,645
	531,874	423,141

Temporary differences in items of assets or liabilities:

	2010	2009
Deductible temporary differences		
Unrealised profits arising on consolidation	**302,312**	491,453
Provision for inventory impairment	**716,779**	751,999
Foreseeable contract losses	**170,973**	625,992
Provision for maintenance and returned goods	**215,076**	157,144
Provision for retirement benefits	**43,332**	38,028
Capitalisation of deferred development costs	**24,157**	—
Overseas taxes pending deduction	**1,539,413**	1,670,220
	3,012,042	3,734,836
Taxable temporary differences		
Capitalisation of development costs	**—**	25,060
Changes in the fair value of tradable financial assets	**115,417**	—
Deemed disposal gain in associates	**440,318**	—
Temporary differences relating to investments in subsidiaries (Note 1)	**1,177,844**	822,525
	1,733,579	847,585

Note 1 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, dividend income payable to overseas investors derived from profit of PRC subsidiaries generated after 1 January 2008 is subject to a 10% withholding tax, or 5% for companies incorporated in Hong Kong. As at 31 December 2010, the Group did not recognize income tax liabilities in respect of tax obligations arising from future distribution of the retained profits of the subsidiaries because the Group controlled the dividend policies of these subsidiaries and was of the view that profit generated in the relevant periods would not be available for distribution in the foreseeable future.

Notes to Financial Statements

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

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

17. Provision for impairment of assets

2010

	Opening balance	Provision for the year	Reduction during the year		Closing balance
			Write-back	Write-off	
Bad debt provision	**1,854,947**	**375,612**	**(32,640)**	**(14,972)**	**2,182,947**
Including:					
Trade receivables	**1,742,777**	**375,612**	**(16,398)**	**(12,473)**	**2,089,518**
Long-term receivables	**112,170**	**—**	**(16,242)**	**(2,499)**	**93,429**
Provision for impairment of inventories	**751,999**	**172,008**	**(199,717)**	**(7,511)**	**716,779**
Provision for impairment of intangible assets	**6,322**	**—**	**—**	**—**	**6,322**
	2,613,268	**547,620**	**(232,357)**	**(22,483)**	**2,906,048**

2009

	Opening balance (Restated)	Provision for the year	Reduction during the year		Closing balance (Restated)
			Write-back	Write-off	
Bad debt provision	1,702,254	519,459	(63,354)	(303,412)	1,854,947
Including:					
Trade receivables	1,526,730	519,459	—	(303,412)	1,742,777
Long-term receivables	175,524	—	(63,354)	—	112,170
Provision for impairment of inventories	470,164	281,835	—	—	751,999
Provision for impairment of intangible assets	6,322	—	—	—	6,322
	2,178,740	801,294	(63,354)	(303,412)	2,613,268

The Group determines at the balance sheet whether there is an indication of impairment in trade receivables. Where there is such indication, the Group will estimate its recoverable amount and conduct impairment tests.

Inventory is measured at the lower of cost and net realizable value. Where the cost is higher than the net realisable value, provision for impairment in inventory is recognized in current profit or loss.

Notes to Financial Statements

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

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

18. Short-term loans

		2010		2009		
		Original currency	**RMB equivalent**	Original currency	RMB equivalent	
Credit loans	RMB	**1,199,324**	**1,199,324**	604,000	604,000	
	USD	**401,427**	**2,658,531**	457,000	3,120,487	
	INR	**—**	**—**	540,000	78,630	
	EUR	**1,100**	**9,687**	—	—	
Guaranteed loans	RMB	**10,000**	**10,000**	43,000	43,000	Note 1
Secured loans	RMB	**7,500**	**7,500**	12,500	12,500	Note 2
Bill discounted loans	RMB	**382,527**	**382,527**	926,208	926,208	Note 3
Pledged loans	USD	**270,811**	**1,793,500**	16,795	114,678	Note 4
	RMB	**461,360**	**461,360**	—	—	Note 4
	EUR	**6,357**	**55,984**	—	—	Note 4
Others			**—**		7,000	
			6,578,413		4,906,503	

At 31 December 2010, the annual interest rate of the above loans ranged from 2.00%–7.00% (31 December 2009: 1.26%–10%).

Note 1 The guaranteed loan was borrowed by Shenzhen Lead Communications Company, Limited and guaranteed by Shenzhen Kangquan Electromechanical Company, Limited

Note 2 The loan was secured by properties and land use rights of 安徽亞龍通信技術有限公司 with book values of RMB3,916,000 and RMB2,444,000, respectively.

Note 3 Bill discounted loans are loans discounted by bank acceptance bills and commercial acceptance bills.

Note 4 Pledged loans were loans secured by trade receivables.

Notes to Financial Statements

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

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

19. Bill payable

	2010	2009
Commercial acceptance bills	**7,117,633**	3,239,419
Bank acceptance bills	**2,938,844**	5,245,442
	10,056,477	8,484,861

An amount of RMB10,056,477 will fall due in the next accounting period (31 December 2009: RMB8,484,861,000).

As at 31 December 2010, bills payable included amounts due to shareholders or related parties holding 5% or more in the voting shares or related parties amounting to RMB79,294,000 (31 December 2009: 15,407,000). Please refer to Note VI. "The relationships and transactions with related parties".

20. Trade payables

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

As at 31 December 2010, trade payables included amounts due to shareholders or related parties holding 5% or more in the voting shares amounting to RMB266,058,000 (31 December 2009: RMB200,556,000). Please refer to Notes VI "The relationships and transactions with related parties".

21. Advances from customers

	2010	2009
Advanced payments for system project work	**1,923,303**	2,021,274
Advanced payments for terminals	**821,391**	316,354
	2,744,694	2,337,628

As at 31 December 2010, advance from customers included amounts due to shareholders or related parties holding 5% or more in the voting shares amounting to RMB9,965,000 (31 December 2009: RMB13,245,000). Please refer to Note VI. "The relationships and transactions with related parties".

Notes to Financial Statements

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

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

22. Salary and welfare payables

2010

	Opening balance	Accruals	Payments	Closing balance
Salary, bonus and allowance	**1,933,703**	**9,554,656**	**(9,020,145)**	**2,468,214**
Staff welfare	**32,514**	**428,655**	**(435,093)**	**26,076**
Social insurance	**14,087**	**716,403**	**(713,511)**	**16,979**
Including:				
Pension Insurance	**10,759**	**343,293**	**(343,484)**	**10,568**
Medical Insurance	**2,993**	**304,490**	**(301,188)**	**6,295**
Unemployment Insurance	**208**	**30,769**	**(30,770)**	**207**
Working Injuries Insurance	**75**	**15,288**	**(15,421)**	**(58)**
Maternity Insurance	**52**	**22,563**	**(22,648)**	**(33)**
Housing funds	**1,970**	**270,551**	**(238,051)**	**34,470**
Labour union fund and employee education fund	**416,446**	**318,678**	**(182,936)**	**552,188**
	2,398,720	**11,288,943**	**(10,589,736)**	**3,097,927**

2009

	Opening balance	Accruals	Payments	Closing balance
Salary, bonus and allowance	1,091,334	7,805,912	(6,963,543)	1,933,703
Staff welfare	12,683	396,246	(376,415)	32,514
Social insurance	12,173	579,292	(577,378)	14,087
Including:				
Pension Insurance	10,507	404,608	(404,356)	10,759
Medical Insurance	1,216	139,480	(137,703)	2,993
Unemployment Insurance	254	15,857	(15,903)	208
Working Injuries Insurance	100	9,745	(9,770)	75
Maternity Insurance	96	9,602	(9,646)	52
Housing funds	1,360	123,547	(122,937)	1,970
Labour union fund and employee education fund	325,467	217,028	(126,049)	416,446
	1,443,017	9,122,025	(8,166,322)	2,398,720

Notes to Financial Statements

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

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

23. Tax payable

	2010	2009
Value-added tax ("VAT")	**(1,356,866)**	(1,122,542)
Business tax	**78,128**	57,478
Income tax	**885,728**	1,147,347
PRC tax	**433,483**	528,063
Overseas tax	**452,245**	619,284
Individual income tax	**86,720**	62,412
City maintenance and construction tax	**18,738**	8,270
Education surcharge	**16,019**	10,744
Other taxes	**(49,812)**	(85,994)
	(321,345)	77,715

24. Dividend payable

	2010	2009
Dividend payable to holders of restricted shares	**97**	74
Dividend payable to minority shareholders	**136,205**	16,892
	136,302	16,966

25. Other payables

	2010	2009
Employee subscriptions under the share incentive scheme	**276,266**	447,235
Accruals	**554,359**	653,590
Contributions to staff housing	**680,000**	—
Payables to external parties	**1,089,244**	612,229
Deposits	**20,026**	297,504
Factored interests payable	**112,169**	73,868
Payables to employees	**194,925**	103,130
Others	**49,336**	25,921
	2,976,325	2,213,477

As at 31 December 2010, other payables include amounts due to shareholders or related parties holding 5% or more in the voting shares amounting to RMB703,000 (31 December 2009: RMB1,078,000). Please refer to Notes VI. "The relationships and transactions with related parties."

Notes to Financial Statements

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

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

26. Provisions

2010

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Provision for penalties	**32,520**	**19,015**	**(5,918)**	**45,617**
Provision for returned handsets	**54,885**	**15,878**	**(25,239)**	**45,524**
Provision for warranties	**102,259**	**154,867**	**(87,574)**	**169,552**
	189,664	**189,760**	**(118,731)**	**260,693**

2009

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Provision for penalties	33,524	12,286	(13,290)	32,520
Provision for returned handsets	44,792	23,043	(12,950)	54,885
Provision for warranties	92,066	72,896	(62,703)	102,259
	170,382	108,225	(88,943)	189,664

Notes to Financial Statements

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

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

27. Long-term non-current liabilities due within one year

	2010	2009
Long-term loans due within one year	**1,322,817**	1,939,965

Long-term loans due within one year are analysed as follows:

		2010		2009		
		Original currency	**RMB equivalent**	Original currency	RMB equivalent	
Credit loans	RMB	**685,000**	**685,000**	1,000,000	1,000,000	
	USD	**70,000**	**463,589**	30,000	204,845	
Guaranteed loans	RMB	**20,000**	**20,000**	46,667	46,667	Note 1
Secured loans	USD	**23,280**	**154,176**	100,800	688,283	Note 2
	INR	**350**	**52**	—	—	
Others			**—**		170	
			1,322,817		1,939,965	

Note 1: The loan was guaranteed by the government of Congo (Kinshasa).

Note 2: The secured loans included loans granted to Closed Joint Company TK Mobile and secured by its existing network equipment and assets to be generated in future under the loan agreement; as well as loans granted to Congo-Chine Telecom S.A.R.L. and secured a 51% equity interest in Congo-Chine Telecom S.A.R.L. held by the Company and fixed assets purchased with loans under the loan agreement.

As at 31 December 2010, the top five long-term non-current liabilities due within one year were as follows:

	Loan Drawdown date	Loan Due date	Currency	Interest rate	**Balance at the end of 2010**		Balance at the end of 2009	
				(%)	**Foreign currency**	**RMB equivalent**	Foreign currency	RMB equivalent
The Export-Import Bank of China	2009.4.24	2011.3.12	RMB	Approx.4%	**–**	**250,000**	–	250,000
China Merchants Bank	2009.5.11	2011.5.11	USD	Approx.3%	**30,000**	**198,681**	30,000	198,681
The Export-Import Bank of China	2010.1.4	2011.3.12	RMB	Approx.4%	**–**	**188,000**	–	–
The Export-Import Bank of China	2010.1.29	2011.3.12	RMB	Approx.4%	**–**	**186,000**	–	–
China Merchants Bank	2009.5.19	2011.5.19	USD	Approx.3%	**20,000**	**132,454**	20,000	132,454

Notes to Financial Statements

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

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

28. Long-term loans

		2010		2009		
		Original currency	**RMB equivalent**	Original currency	RMB equivalent	
Credit loans	RMB	**–**	**–**	711,000	711,000	
	USD	**110,000**	**728,497**	160,000	1,092,512	
Guaranteed loans	RMB	**248,143**	**248,143**	234,810	234,810	Note 1
Secured loans	USD	**112,140**	**742,670**	52,440	358,071	Note 2
			1,719,310		2,396,393	

Note 1: Guaranteed loans comprised a loan guaranteed by the government of Congo (Kinshasa).

Note 2: The secured loans included loans granted to Closed Joint Company TK Mobile and secured by its existing network equipment and assets to be generated in future under the loan agreement; as well as loans granted to Congo-Chine Telecom S.A.R.L. and secured a 51% equity interest in Congo-Chine Telecom S.A.R.L. held by the Company and fixed assets purchased with loans under the loan agreement.

As at 31 December 2010, the top five long-term loans were as follows:

	Loan Drawdown date	Loan Due date	Currency	Interest rate	**Balance at the end of 2010**		Balance at the end of 2009	
				(%)	**Foreign currency**	**RMB equivalent**	Foreign currency	RMB equivalent
Bank of China	2009.1.20	2012.1.20	USD	Approx.2.5%	**50,000**	**331,135**	50,000	331,135
Bank of China	2009.3.12	2012.3.12	USD	Approx.2.5%	**40,000**	**264,908**	40,000	264,908
China Development Bank	2006.10.15	2016.10.15	USD	Approx.3%	**38,640**	**255,901**	38,640	255,901
China Development Bank	2008.6.27	2013.5.21	USD	Approx.3%	**25,200**	**166,892**	25,200	166,892
China Development Bank	2008.6.27	2012.5.21	USD	Approx.3%	**23,100**	**152,984**	23,100	152,984

Notes to Financial Statements

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

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

29. Bonds cum warrants

	2010	2009
Opening balance	**3,632,681**	3,514,652
Interest expenses	**155,109**	150,029
Interest payments	**(32,000)**	(32,000)
Balance at year-end	**3,755,790**	3,632,681

On 30 January 2008, the Company issued 40,000,000 bonds with warrants with a nominal value of RMB100 each and a total amount of RMB4 billion. 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. In the event of any ex-rights or ex-dividend netting of share prices during the effective period for the warrants, the exercise price and exercise ratio of the warrants will be adjusted accordingly. As the Company distributed share dividend and issued bonus shares during 2008 and 2009, the exercise price of the warrants was adjusted to RMB42.394 per share and the exercise ratio was adjusted to the subscription of 0.922 A share for every one warrant held.

As at the close of trading on 12 February 2010, a total of 23,348,590 "中興ZXC1" warrants were exercised and 21,523,441 new shares were issued as a result.

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 at the issue date was set out as follows:

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

Notes to Financial Statements

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

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

30. Other non-current liabilities

	2010	2009
Long-term financial guarantee contract	3,689	3,689
Provision for retirement benefits	43,332	38,028
Factored interests payable	392,211	255,052
	439,232	296,769

31. Share capital

2010

	Opening balance	Increase/(decrease)during the year Issue new shares Note 1, Note 2	Transfer from capital reserve Note 3	Others Note 4	Sub-total	Closing balance
Restricted shares						
Domestic natural person shares	66,899	–	20,873	(27,630)	(6,757)	60,142
Senior management shares	5,559	–	2,297	(1,080)	1,217	6,776
Total number of restricted shares	72,458	–	23,170	(28,710)	(5,540)	66,918
Unrestricted shares						
RMB Ordinary Shares	1,467,403	21,524	757,522	28,710	807,756	2,275,159
Overseas listed foreign shares	291,475	58,295	174,885	–	233,180	524,655
Total number of unrestricted shares	1,758,878	79,819	932,407	28,710	1,040,936	2,799,814
Total number of shares	1,831,336	79,819	955,577	–	1,035,396	2,866,732

Notes to Financial Statements

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

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

31. Share capital (continued)

2009

	Opening balance	Increase/(decrease) during the year: Transfer from capital reserve	Others	Sub-total	Closing balance
Restricted shares					
Domestic natural person shares	—	—	66,899	66,899	66,899
Senior management shares	1,693	486	3,380	3,866	5,559
Total number of restricted shares	1,693	486	70,279	70,765	72,458
Unrestricted shares					
RMB ordinary shares	1,117,426	335,249	14,728	349,977	1,467,403
Overseas listed foreign shares	224,211	67,264	—	67,264	291,475
Total number of unrestricted shares	1,341,637	402,513	14,728	417,241	1,758,878
Total number of shares	1,343,330	402,999	85,007	488,006	1,831,336

Note 1 The Company completed the placing of H shares on 21 January 2010, with the allotment and issue of 58,294,800 new H shares. The change in share capital has been verified by Lixin Dahua Certified Public Accountants, who has furnished a capital verification report Li Xin Da Hua Yan Zi [2010] No.046.

Note 2 As at the close of trading on 12 February 2010, a total of 23,348,590 "ZXC1" Warrants (representing approximately 35.81% of the number of warrants prior to the exercise) had been exercised and a total of 41,851,410 unexercised Warrants were cancelled. Following the exercise of new warrants, the total share capital of the Company was increased from 1,889,631,015 shares before the exercise to 1,911,154,456 shares. The change in share capital has been verified by Lixin Dahua Certified Public Accountants, who has furnished a capital verification report Li Xin Da Hua Yan Zi [2010] No. 027.

Note 3 On 24 June 2010, the Company implemented the 2009 profit distribution and capitalisation of the capital reserve plan: 5 bonus shares for every 10 shares were issued based on the number of shares held by registered shareholders on the record date. The share capital was enlarged by a total of 955,577,228 shares to a total of RMB2,866,731,684. The change in share capital has been verified by Ernst & Young Hua Ming Shenzhen Branch, who has furnished a verification report An Yong Hua Ming [2010] Yan Zi No. 60438556-H01.

Note 4 As at 12 March 2010, 3,239 Scheme Participants under the First Award had satisfied conditions for the Second Unlocking of Subject Shares under the Phase I Share Incentive Scheme and a total of 26,452,094 A share Subject Shares were unlocked in the Second Unlocking. On 15 December 2010, 763 Scheme Participants under the second award of the Phase I Share Incentive Scheme fulfilled the conditions for the first unlocking of Subject Shares under the second award. A total of 2,520,957 A shares were unlocked as Subject Shares under the second unlocking after deduction of 25,041 Subject Shares quota that lapsed without unlocking. After the unlocking, the share capital structure of the Company was changed, although the number of share capital remained unchanged. In accordance with relevant domestic regulations, shares held by departed or newly assigned Directors, Supervisors or senior management shall be under lock-up.

Notes to Financial Statements

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

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

32. Capital reserves

2010

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium (Note1)	**5,368,316**	**4,074,756**	**(955,577)**	**8,487,495**
Equity component of bonds cum warrants (Note1)	**580,210**	**—**	**(580,210)**	**—**
Change in shareholders' equity of investee net of gains/losses under equity method and other capital reserves	**40,509**	**751**	**—**	**41,260**
Equity settled transaction (Note2)	**680,864**	**158,957**	**(377,601)**	**462,220**
Capital injection from government	**80,000**	**—**	**—**	**80,000**
	6,749,899	**4,234,464**	**(1,913,388)**	**9,070,975**

2009

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	5,078,849	692,466	(402,999)	5,368,316
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	39,414	1,095	—	40,509
Equity settled transaction	599,699	299,594	(218,429)	680,864
Capital injection from government	—	80,000	—	80,000
	6,298,172	1,073,155	(621,428)	6,749,899

Notes to Financial Statements

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

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

32. Capital reserves (continued)

Note 1 On 21 January 2010, the Company completed the placing of new H shares and raised placing proceeds of approximately HK$2,596 million. An amount of RMB2,226,004,000 was credited to the capital reserve and share capital premium after deducting legal fees and other expenses.

As at the close of trading on 12 February 2010, a total of 23,348,590 "ZXC1" Warrants (representing approximately 35.81% of the number of warrants prior to the exercise) had been exercised and a total of 41,851,410 unexercised Warrants were cancelled. The capital reserve — share capital premium was credited with RMB890,941,000 accordingly. Unexercised warrants previously accounted for in the capital reserve (other reserve) with an amount of RMB580,210,000 was transferred to capital reserve (share capital premium).

On 4 June 2010, the second unlocking of Subject Shares under the First Award upon fulfillment of unlocking conditions was completed. The corresponding amount of RMB364,564,000 accounted for as capital reserve—share-based payment was transferred to capital reserve — share capital premium. On 15 December 2010, the First Unlocking of 20% of the Subject Shares fulfilling unlocking conditions under the Second Award was completed. The corresponding amount of RMB13,037,000 accounted for as capital reserve — share-based payment was transferred to capital reserve — share capital premium.

The proposals of profit distribution and capitalisation from capital reserve of the Company for 2009 were implemented on 24 June 2010, whereby 5 shares were issued for every 10 shares held by way of capitalization from capital reserves. A share premium amount of RMB955,577,000 was deducted from the capital reserve accordingly.

Note 2 In 2010, equity-settled share-based payments with a total amount of RMB158,957,000 were recognized as current expenses.

As at 12 March 2010, 3,239 Scheme Participants under the First Award had satisfied conditions for the Second Unlocking of Subject Shares under the Phase I Share Incentive Scheme and a total of 26,452,094 A share Subject Shares were unlocked in the Second Unlocking, and unlocking was completed on 4 June 2010. The corresponding amount of RMB364,564,000 accounted for as capital reserve—share-based payment was transferred to capital reserve — share capital premium. On 15 December 2010, 763 Scheme Participants of the Phase I Share Incentive Scheme fulfilled the conditions for the First Unlocking of Subject Shares under the Second Award and a total of 2,520,957 A shares were unlocked as Subject Shares. The corresponding amount of RMB13,037,000 accounted for as capital reserve—share-based payment was transferred to capital reserve — share capital premium.

Notes to Financial Statements

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

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

33. Restricted shares subject to lock-up

In July 2009, all of the 85,006,813 Subject Shares under the Share Incentive Scheme of the Company were registered as share capital on a one-off basis. Unlocking conditions in respect of 15,269,290 shares, being 20% of the First Award had been fulfilled and 14,559,708 shares were listed on 23 July 2009. Unlocking conditions in respect of 35% of the First Award had been fulfilled and 26,452,094 shares were listed on 4 June 2010. The proposals of profit distribution and capitalisation from capital reserve for 2009 were implemented on 24 June 2010, whereby 5 shares were issued for every 10 shares held. As a result, registered Subject Shares for which unlocking conditions had not been fulfilled was adjusted to 64,928,143 shares accordingly. Unlocking conditions in respect of 20% of the Second Award had been fulfilled and 2,520,957 shares were listed on 15 December 2010. After deducting the Subject Shares under the Unlocking, there were 62,407,186 registered Subject Shares for which unlocking conditions had not been fulfilled as at 31 December 2010, among which 542,778 Subject Shares would be lapsed. In accordance with the Share Incentive Scheme and relevant legal undertakings executed by the Company and the Scheme Participants, such shares are being held under the name of the Scheme Participants, who are not entitled to any cash dividend distribution and voting rights until the unlocking conditions have been fulfilled in respect of such shares. Therefore, a subscription amount of RMB276,266,000 for such restricted shares remaining in lock-up were charged to shareholders' equity as "Shares subject to lock-up under the Share Incentive Scheme" in the statement of financial position. For details of the Share Incentive Scheme, please refer to Note VII. "Share-based payment".

Notes to Financial Statements

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

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

34. Surplus reserves

2010

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserves	**1,505,203**	**32,309**	**—**	**1,537,512**

2009

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserves	1,431,820	73,383	—	1,505,203

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, until the accumulated statutory surplus reserve has reached 50% of the registered capitals of the Company.

The Company may further allocate to the discretionary surplus reserve after the statutory surplus reserves allocation. The discretionary surplus reserve can be applied towards making up losses of the previous years, or capitalized as the Company's share capital.

Notes to Financial Statements

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

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

35. Retained profits

	2010	2009
Retained profits at the beginning of the year	**6,853,682**	5,021,369
Net profit	**3,250,247**	2,458,121
Less: Statutory surplus reserves	**32,309**	73,383
Difference between actual distribution and proposed dividend for the previous year*	**7,936**	—
Proposed final dividend**	**841,297**	552,425
Retained profits at the end of the year	**9,222,387**	6,853,682

In accordance with the Articles of Association of the Company, 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.

* As at 8 April 2010, there were 69,737,523 registered Subject Shares under the Share Incentive Scheme remaining in lock-up. In accordance with the provision of the Company's Share Incentive Scheme that Subject Shares remaining in lock-up shall not be entitled to cash distribution and based on assumptions then made, if the Second Unlocking of the Subject Shares under the First Award of the Phase I Share Incentive Scheme ("Second Unlocking") was not completed by the record date for profit distribution, the number of shares entitled to cash distribution under the 2009 profit distribution proposal would be 1,841,416,933 shares, and the amount of proposed cash dividend to be paid on this basis in the 2009 profit distribution plan would be RMB552,425,000. On 4 June 2010, the Second Unlocking of 26,452,094 Subject Shares under the First Award of the Share Incentive Scheme was completed, and the number of restricted shares under the Share Incentive Scheme remaining in lock-up was reduced to 43,285,429 shares. On 24 June 2010, a cash dividend payment of RMB3 (including tax) for every 10 shares under the 2009 profit distribution was in respect of 1,867,869,027 shares (total share capital less the number of restricted shares under the Share Incentive Scheme remaining in lock-up), resulting in a total payment of RMB560,361,000. As a result, there was a difference of approximately RMB7,936,000 between the cash dividend amount actually paid in 2010 and the dividend amount proposed in 2009, which was separately presented here.

** For details of the proposed final dividend for the year, please refer to Note X. The profit distribution proposal is pending approval by the general meeting of the Company.

36. Operating revenue and costs

Operating revenue is analysed as follows:

	2010	2009
Revenue	**69,852,300**	60,070,089
Other income	**411,574**	202,474
	70,263,874	60,272,563

Operating cost is analysed as follows:

	2010	2009
Costs of sales	**47,071,507**	40,572,026
Other operating expenses	**263,519**	51,313
	47,335,026	40,623,339

Notes to Financial Statements

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

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

36. Operating revenue and costs (continued)

Principal operations by product:

	2010		2009	
	Revenue	**Cost**	Revenue	Cost
Networks	**41,990,133**	**25,852,851**	39,982,316	26,035,409
Terminals	**17,927,439**	**14,295,454**	13,071,519	9,654,717
Telecommunications software system, services and other products	**9,934,728**	**6,923,202**	7,016,254	4,881,900
	69,852,300	**47,071,507**	60,070,089	40,572,026

Revenue from the construction of carriers' networks for 2010 included income of RMB838,604,000 (2009: RMB825,603,000) arising from the factoring of long-term receivables due from an African telecommunications operator to banks. See Note V.10 for details of the arrangement.

Principal operations by geography:

	2010		2009	
	Revenue	**Cost**	Revenue	Cost
The PRC	**31,850,760**	**21,099,265**	30,304,313	20,362,499
Asia (excluding the PRC)	**12,638,428**	**8,874,790**	13,147,385	10,216,138
Africa	**10,617,068**	**5,852,404**	6,841,317	3,176,310
Europe, America and Oceania	**14,746,044**	**11,245,048**	9,777,074	6,817,079
	69,852,300	**47,071,507**	60,070,089	40,572,026

Sales to the top five customers of the Group generated revenue of RMB28,705,812,000 in 2010 (2009: RMB28,294,883,000), accounting for 41.10% (2009: 47.10%) of the operating revenue of the Group respectively.

37. Construction contracts

Construction contracts are stated as the sum of accumulated costs and accumulated gross profit (loss) recognized less settled contract amounts and expected losses on contracts. See Note V.8. In current year, no single contract accounted for more than 10% of the operating revenue.

Notes to Financial Statements

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

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

38. Taxes and surcharges

	2010	2009
Business tax	908,228	584,039
City maintenance and construction tax	54,087	33,908
Education surcharge	73,249	47,619
Others	113,513	27,367
	1,149,077	692,933

For tax standards, please refer to Note III, "Taxation".

39. Selling and distribution costs

	2010	2009
Wages, welfare and bonuses	2,761,995	2,218,638
Consulting and services charges	1,718,485	1,329,842
Travelling expenses	1,043,286	768,939
Transportation and fuel charges	559,833	594,214
Office expenses	348,531	352,678
Advertising and promotion expenses	309,983	236,303
Rental fees	261,424	187,986
Communication expenses	114,136	101,076
Others	1,637,295	1,254,706
	8,754,968	7,044,382

40. Administrative expenses

	2010	2009
Wages, welfare and bonuses	1,175,614	1,424,186
Office expenses	183,131	151,417
Amortization and depreciation charges	177,054	202,925
Taxes	170,252	125,735
Rental fees	159,533	155,274
Travelling expenses	88,316	74,557
Others	456,394	433,834
	2,410,294	2,567,928

41. Gains from changes in fair values

	2010	2009
Derivative financial instruments	83,597	12,560

Notes to Financial Statements

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

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

42. Investment income/(losses)

	2010	2009
Investment income from long-term equity investment under equity method	**44,123**	26,002
Investment income from long-term equity investment under cost method	**6,023**	2,100
Investment income/(losses) from the disposal of derivative financial instruments	**6,699**	(10,162)
Investment income/(losses) from the disposal of long-term equity investment	**440,318**	(6,069)
	497,163	11,871

As at 31 December 2010, the Company was not subject to significant restrictions in remitting its investment income.

43. Financial expenses

	2010	2009
Interest expenses	**728,552**	751,744
Less: Interest income	**101,020**	110,715
Loss/(gain) on foreign currency exchange	**179,428**	(206,703)
Cash discounts and interest subsidy	**142,564**	69,681
Bank charges	**248,953**	280,719
	1,198,477	784,726

44. Impairment Losses

	2010	2009
Bad debt provisions	**342,972**	456,105
Inventories provisions/(reversal)	**(27,709)**	281,835
	315,263	737,940

Notes to Financial Statements

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

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

45. Non-operating income/Non-operating expenses

Non-operating income

	2010	2009	The amount in the non-recurring profit/loss of the period
Refund of VAT on software products (Note 1)	**1,341,613**	981,274	—
Others (Note 2)	**660,536**	410,146	259,290
	2,002,149	1,391,420	259,290

Note1 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 some subsidiaries of the Company, pursuant to the principles of the State Council document entitled "Certain Policies to Encourage the Development of Software Enterprise and the IC Industry" and the approval reply of the state taxation authorities.

Note2 Others represent government grant, gains from contract penalties and other gains.

Non-operating expenses

	2010	2009	The amount in the non-recurring profit/loss of the period
Compensation	**198,212**	67,139	198,212
Loss arising from the disposal of non-current assets	**24,094**	26,744	24,094
Others	**9,200**	36,958	9,200
	231,506	130,841	231,506

Notes to Financial Statements

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

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

46. Income tax

	2010	2009
Current income tax	**809,803**	873,829
Deferred income tax	**73,916**	(244,748)
	883,719	629,081

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

	2010	2009
Total profit	**4,360,201**	3,324,742
Tax at statutory tax rate (Note 1)	**1,090,052**	831,186
Effect of different tax rates applicable to certain subsidiaries	**(484,618)**	(392,775)
Adjustment to current tax in previous periods	**144,850**	—
Profits and losses attributable to jointly-controlled entities and associates	**(8,209)**	(4,537)
Income not subject to tax	**(281,659)**	(181,327)
Expenses not deductible for tax	**206,219**	338,320
Utilisation of tax losses from previous years	**(43,468)**	(15,449)
Unrecognised tax losses	**260,552**	53,663
Tax charge at the Group's effective rate	**883,719**	629,081

Note1 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.

Notes to Financial Statements

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

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

47. 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 ordinary equity holders of the Company for the year is adjusted for the following: (1) interests on potentially dilutive ordinary shares recognized as expenses for the year; (2) income or expenses arising from the conversion of potentially dilutive ordinary shares; and (3) income tax effect on the above adjustments.

In the calculation of diluted earnings per share, the denominator shall be the sum of: (1) weighted average number of ordinary shares of the Company in issue adopted in the calculation of basic earnings per share; and (2) weighted average number of ordinary shares created assuming conversion of potentially dilutive ordinary shares into ordinary shares.

In calculating the weighted average number of ordinary shares created upon conversion of potentially dilutive ordinary shares into ordinary share, potentially dilutive ordinary shares issued in previous years are assumed to have been converted at the beginning of the current year, whereas potentially dilutive ordinary shares issued in the current year are assumed to have been converted on the date of issue.

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

	2010	2009 (Restated)
Earnings		
Net profit attributable to ordinary shareholders of the Company for the year	**3,250,247**	2,458,121
Shares		
Weighted average number of ordinary shares of the Company (Note 1)	**2,769,296**	2,629,037
Diluting effect — weighted average number of ordinary shares:		
Restricted Shares under share incentive scheme (Note 2)	**61,864**	104,606
Warrants (Note 3)	**—**	—
Adjusted weighted average number of ordinary shares of the Company	**2,831,160**	2,733,643

Note 1 In June 2010, the Company enlarged its share capital by 955,577,228 shares by way of capitalisation of capital reserves. After the capitalisation, the total number of ordinary shares in issue was 2,866,731,684 shares. The amounts of earnings per share for the reported periods were computed on the basis of the adjusted number of shares.

During the reporting period, 62,407,186 restricted shares subject to lock-up under the Phase I Share Incentive Scheme of the Company were not accounted for outstanding ordinary shares in issue.

Note 2 During the reporting period, 61,864,408 restricted shares (less 542,778 shares which would lapse) subject to lock-up under the Phase I Share Incentive Scheme of the Company gave rise to potentially dilutive ordinary shares.

Note 3 As at the close of trading of "中興ZXC1" warrants on 12 February 2010, a total of 23,348,590 warrants were exercised and 41,851,410 warrants which remained unexercised were cancelled. As at 31 December 2010, the Company had no outstanding warrants in issue. The average market price of the ordinary shares for 2009 is less than the exercise price of the warrants, therefore, they are not dilutive and are not considered in the calculation of diluted earnings per share for 2009.

Notes to Financial Statements

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

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

48. Other comprehensive income

	2010	2009
Differences arising from foreign currency translation	**41,399**	8,644

49. Notes to cash flow statement

	2010	2009
Cash received in connection with other operating activities:		
Interest income	**101,020**	110,715
Cash paid in connection with other operating activities:		
Selling and distribution costs	**5,441,026**	4,458,413
Administrative expenses and research and development costs	**2,887,600**	2,501,214

50. Supplemental information on cash flow statement

Reconciliation of net profit to cash flows from operating activities:

	2010	2009
Net profit	**3,476,482**	2,695,661
Add: Provision for impairment of assets	**315,263**	737,940
Depreciation of fixed assets	**859,538**	762,838
Amortisation of intangible assets and deferred development costs	**203,453**	175,282
Amortisation of long-term deferred assets	**8,042**	8,832
Loss on disposal of fixed assets, intangible assets and other long-term assets	**24,094**	26,744
Gain from changes in fair value	**(83,597)**	(12,560)
Finance expenses	**907,980**	545,041
Investment income	**(497,163)**	(11,871)
Increase in deferred tax assets	**(11,327)**	(243,653)
Increase/(decrease) in deferred tax liabilities	**85,243**	(1,095)
Increase in inventories	**(2,751,161)**	(628,599)
Increase in operating receivables	**(8,604,383)**	(12,353,376)
Increase in operating payables	**7,389,338**	12,621,593
Share incentive scheme costs	**158,957**	299,594
increase in cash not immediately available for payments	**(538,849)**	(893,099)
Net cash flows from operating activities	**941,910**	3,729,272

Notes to Financial Statements

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

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

50. Supplemental information on cash flow statement (continued)

Change in cash and cash equivalents:

	2010	2009
Cash		
Including: Cash on hand	**17,394**	11,188
Bank deposit readily available	**14,887,705**	14,064,634
Cash and cash equivalents at end of year	**14,905,099**	14,075,822

VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES

1. Controlling shareholder

Name of controlling shareholder	Type of enterprise	Place of registration	Legal representative	Nature of business	Registered capital	Percentage of shareholding (%)	Percentage of voting rights (%)	Organisation number
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Company with limited liability	Shenzhen, Guangdong	Xie Wei Liang	Manufacturing	RMB100 million	32.45%	32.45%	19222451-8

According to Shenzhen Stock Exchange Listing Rules, the Company's controlling shareholder is Shenzhen Zhongxingxin Telecommunications Equipment Company Limited.

2. Subsidiaries

Details of the subsidiaries are set out in Note IV. Scope of Consolidation of the Consolidated Financial Statements.

3. Jointly-controlled entities and associates

Details of the jointly-controlled entity and associates are set out in Note V. 11.

Notes to Financial Statements

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

VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

4. Other related parties

	Relationship	Organisation number
Shenzhen Zhongxing WXT Equipment Company Limited	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 Company Limited	Company with equity investment from shareholders of the Company's controlling shareholder	715233457
Shenzhen Gaodonghua Communication Technology Company Limited	Company with equity investment from shareholders of the Company's controlling shareholder	74323392-1
Shenzhen Shenglongfeng Industrial Company Limited	Company with equity investment from shareholders of the Company's controlling shareholder	72619249-4
北京協力超越科技有限公司	Controlling party of a shareholder of the Company's controlling shareholder	76678817-X
Lishan Microelectronics Research Institute	Shareholder of the Company	43523013-9
Jilin Posts and Telecommunications Equipment Company	Shareholder of the Company	12391552-6
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	Under the same controlling shareholder as the Company	75049913-8
Zhongxing Xinzhou Complete Equipment Company Limited	Under the same controlling shareholder as the Company	78390928-7
Shenzhen Zhongxing Xinyu FPC Company Limited	Under the same controlling shareholder as the Company	75252829-7
Beijing Zhongxing Intelligent Transportation Systems Limited	Senior management of the Company concurrently acting as director of the related party	72260457-8
Mobi Antenna Technologies (Shenzhen) Company Limited	Supervisor of the Company concurrently acting as director of the related party	71522427-8
Shenzhen Zhongxing Development Company Limited	Chairman of the Company concurrently acting as chairman of the related party	75048467-3
Chongqing Zhongxing Development Company Limited	Subsidiary of a company whose chairman concurrently acting as Chairman of the Company	76591251-1
Shenzhen Zhongxing International Investment Company Limited	Company with equity investment from shareholders of the Company's controlling shareholder	77878419-2

Notes to Financial Statements

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

VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties

(1) The transaction of goods with related parties:

Sales of goods to related parties:

	2010		2009	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Nanchang Xingfei Technology Company Limited*	**–**	**–**	33,682	0.05
Shenzhen Zhongxing Information Company Limited	**8,663**	**0.01**	6,285	0.01
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**80**	**–**	3,294	0.01
Nationz Technologies Inc.	**199**	**–**	34	–
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**443**	**–**	8	–
Beijing Zhongxing Intelligent Transportation Systems Limited	**10,768**	**0.02**	37,849	0.06
ZTE Software Technology (Nanchang) Company Limited	**–**	**–**	514	–
Mobi Antenna Technologies (Shenzhen) Company Limited	**64**	**–**	–	–
上海泰捷通信技術有限公司	**2,510**	**–**	–	–
Shenzhen Zhongxing Development Company Limited	**35**	**–**	–	–
Shenzhen Weigao Semiconductor Company Limited	**53,304**	**0.08**	13	–
	76,066	**0.11**	81,679	0.13

In 2010, sales to related parties accounted for 0.11% of the Group's total sales revenue. (2009: 0.13%).

Notes to Financial Statements

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

VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(1) The transaction of goods with related parties: (continued)

Purchase of goods from related parties:

	2010		2009	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Nanchang Xingfei Technology Company Limited*	**—**	**—**	67,818	0.16
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**376,294**	**0.94**	475,661	1.17
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**144,488**	**0.36**	192,843	0.48
Shenzhen Zhongxing Information Company Limited	**2,835**	**0.01**	14,113	0.03
Xi'an Microelectronics Technology Research Institute	**3,709**	**0.01**	3,937	0.01
Shenzhen Zhongxing Xinyu FPC Company Limited	**25,250**	**0.06**	21,520	0.05
Nationz Technologies Inc.	**80,488**	**0.20**	87,533	0.22
Wuxi KaiEr Technology Company Limited	**50,892**	**0.13**	47,216	0.12
Shenzhen Decang Technology Company Limited	**59,592**	**0.15**	58,514	0.14
Shenzhen Fudekang Electronics Company Limited	**29,976**	**0.07**	35,270	0.09
ZTE Software Technology (Nanchang) Company Limited	**—**	**—**	1,654	—
深圳市聚飛光電有限公司	**9,926**	**0.02**	8,140	0.02
Mobi Antenna Technologies (Shenzhen) Company Limited	**284,604**	**0.71**	331,639	0.82
Shenzhen Smart Electronics Company Limited	**839**	**—**	698	—
Zhongxing Xinzhou Complete Equipment Company Limited	**27,771**	**0.07**	12,083	0.03
Shenzhen Shenglongfeng Industrial Company Limited	**14,883**	**0.04**	17,149	0.04
Shenzhen Hongde Battery Company Limited*	**1,578**	**—**	35,774	0.09
Shenzhen Weigao Semiconductor Company Limited	**31,472**	**0.08**	19,849	0.05
	1,144,597	**2.85**	1,431,411	3.52

Notes to Financial Statements

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

VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(1) The transaction of goods with related parties: (continued)

Purchase of goods from related parties: (continued)

In 2010, purchases from related parties accounted for 2.85% of the Group's total purchases (2009: 3.52%).

* In April 2009, Shenzhen Hongde Battery Company Limited, a former subsidiary of the Company, became the Company's associate following a transfer of equity interests. In April 2010, Shenzhen Hongde Batteries Company Limited became the Company's available for sale financial assets following a capital increase. In December 2009, Nanchang Xingfei Technology Company Limited, a former associate of the Company, became a tier-two subsidiary of the Company. In the opinion of the management, no further disclosure is needed as these disposal and acquisition of equity interest have no material impact on the Group. The related party transactions with these two companies set out above included only transactions occurring in the periods in which these companies were the associates of the Company.

Purchase of property from related parties:

	2010	2009
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**152,900**	–

On 8 April 2010, Xi'an Zhongxing New Software Company Limited acquired a property from Shenzhen Zhongxingxin Telecommunications Equipment Company Limited. The property included the land use rights expiring on 6 July 2054 for a land block with a total area of 52,374.20 square metres situated on the eastern side of Zhangba II Road in Gaoxin Area, Xi'an, Shaanxi, the PRC; two buildings erected thereon with a total gross area of 42,690.34 square metres and three plants under construction thereon with a total area of 56,999.81 square metres.

Notes to Financial Statements

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

VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(2) Leasing with related parties

Lease of properties to related parties:

2010

	Property leased	Starting date	Ending date	Lease gain
Shenzhen Zhongxing Development Company Limited	Office	2010/1/1	2010/12/31	1,659
北京協力超越科技有限公司	Office	2010/1/1	2010/12/31	37
Zhongxing Energy Company Limited	Office	2010/1/1	2010/12/31	190

There was no leasing of assets to related parties in 2009.

Lease of properties from related parties:

2010

	Property leased	Starting date	Ending date	Lease cost
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Office	4/18/2010	4/17/2013	6,146
	Office	4/18/2007	4/17/2010	2,586
	Office	4/18/2007	4/17/2010	5,555
Shenzhen Zhongxing Development Company Limited	Office	4/18/2007	4/17/2013	38,859
Chongqing Zhongxing Development Company Limited	Office	10/23/2008	10/22/2011	5,137

Notes to Financial Statements

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

VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(2) Leasing with related parties (continued)

Lease of properties from related parties: (continued)

2009

	Property leased	Starting date	Ending date	Lease cost
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Office	4/18/2007	4/17/2010	29,961
Shenzhen Zhongxing Development Company Limited	Office	4/18/2007	4/17/2010	35,596
Chongqing Zhongxing Development Company Limited	Office	10/23/2008	10/22/2011	4,631

(3) Guarantees for related parties:

Receiving guarantees from related parties

2010

	Guarantee amount	Effective date	Expiry date	Completed
Shenzhen Zhongxing WXT Equipment Company Limited	8,000	2009.8.25	2010.8.25	Yes

2009

	Guarantee amount	Effective date	Expiry date	Completed
Shenzhen Zhongxing WXT Equipment Company Limited	8,000	2009.8.25	2010.8.25	No

Notes to Financial Statements

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

VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(4) Other major related transactions

	2010		2009	
	Amount	**Percentage (%)**	Amount (Restated)	Percentage (%) (Restated)
Remuneration of key management personnel	**32,150**	**0.32%**	**40,700**	0.53%

Notes:

(i) Commercial transactions with related parties: Commercial transactions with related parties was conducted by the Group at market price during the year.

(ii) Leasing property from related parties: Office space was leased to the aforesaid related parties by the Group during the year and lease income of RMB1,886,000 was recognized in accordance with relevant lease contracts (2009: Nil). Office space was leased from related parties by the Group during the year and lease costs of RMB58,283,000 was recognized in accordance with relevant lease contracts (2009: RMB70,188,000).

(iii) Guarantee for related parties: This year, the Company has not provided new guarantees for related parties.

(iv) Other major related transactions: The total amount of remuneration (in the form of monetary amounts, physical rewards or otherwise) for the key management personnel of the Company incurred the Group for the year was RMB32,150,000 (2009: RMB40,700,000). The cost for share-based payment was RMB5,908,000 (2009: RMB10,486,000).

Notes to Financial Statements

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

VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Balances of amounts due from/to related parties

Item	Name of related parties	**2010**	2009
Bills receivable	Wuxi KaiEr Technology Company Limited	**–**	850
		–	850
Trade receivables	Shenzhen Zhongxing Information Company Limited	**4,185**	1,772
	Nationz Technologies Inc.	**202**	–
	ZTE Software Technology (Nanchang) Company Limited	**1**	4
	Beijing Zhongxing Intelligent Transportation Systems Limited	**3,500**	11,609
	Shenzhen Weigao Semiconductor Company Limited	**3,774**	–
		11,662	13,385
Prepayments	Shenzhen Zhongxing Information Company Limited	**1,650**	38
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**484**	119
		2,134	157
Dividends receivable	Shenzhen Zhongxing Xinyu FPC Company Limited	**1,875**	–
		1,875	–

Notes to Financial Statements

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

VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	2010	2009
Bills payable	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**725**	369
	Shenzhen Smart Electronics Company Limited	**272**	348
	Shenzhen Decang Technology Company Limited	**4,689**	4,691
	Wuxi KaiEr Technology Company Limited	**11,097**	4,684
	Shenzhen Zhongxing Xinyu FPC Company Limited	**554**	1,139
	Mobi Antenna Technologies (Shenzhen) Company Limited	**409**	–
	Shenzhen Fudekang Electronics Company Limited	**621**	625
	Shenzhen Weigao Semiconductor Company Limited	**927**	378
	Shenzhen Hongde Battery Company Limited	**–**	3,157
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**60,000**	16
		79,294	15,407
Trade payables	Shenzhen Smart Electronics Company Limited	**291**	171
	Zhongxing Xinzhou Complete Equipment Company Limited	**12,364**	3,217
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**92,772**	85,550
	Shenzhen Zhongxing WXT Equipment Company Limited	**327**	478
	Shenzhen Zhongxing Information Company Limited	**2,820**	2,060
	Shenzhen Zhongxing Xinyu FPC Company Limited	**4,611**	2,991
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**19,024**	418
	Shenzhen Gaodonghua Communication Technology Company Limited	**176**	176
	Shenzhen Weigao Semiconductor Company Limited	**3,482**	5,198
	Shenzhen Shenglongfeng Industrial Company Limited	**3,646**	2,560
	Xi'an Microelectronics Technology Research Institute	**369**	–
	Shenzhen Hongde Battery Company Limited	**–**	786
	ZTE Software Technology (Nanchang) Company Limited	**–**	12
	深圳市聚飛光電有限公司	**2,084**	295
	Nationz Technologies Inc.	**12,967**	24,082
	Shenzhen Decang Technology Company Limited	**11,196**	14,436
	Wuxi KaiEr Technology Company Limited	**10,276**	9,778
	Mobi Antenna Technologies (Shenzhen) Company Limited	**83,107**	45,323
	Shenzhen Fudekang Electronics Company Limited	**6,546**	3,025
		266,058	200,556

Notes to Financial Statements

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

VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	**2010**	2009
Advanced receipts	Shenzhen Weigao Semiconductor Company Limited	**–**	4,644
	Shenzhen Zhongxing Information Company Limited	**–**	293
	Beijing Zhongxing Intelligent Transportation Systems Limited	**1,158**	825
	ZTE Software Technology (Nanchang) Company Limited	**5,851**	7,481
	Xi'an Microelectronics Technology Research Institute	**2**	2
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**2,954**	–
		9,965	13,245
Other payables	ZTE Software Technology (Nanchang) Company Limited	**–**	362
	Lishan Microelectronics Research Institute	**–**	64
	Shenzhen Zhongxing WXT Equipment Company Limited	**12**	12
	Jilin Posts and Telecommunications Equipment Company	**–**	65
	Shenzhen Zhongxing Information Company Limited	**48**	48
	Shenzhen Zhongxing International Investment Company Limited	**–**	4
	Shenzhen Zhongxing Development Company Limited	**215**	215
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**417**	308
	Zhongxing Energy Company Limited	**11**	–
		703	1,078
Other receivables	WANAAG Communications Limited	**–**	573
	Shenzhen Hongde Battery Company Limited	**–**	8,034
		–	8,607

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

Notes to Financial Statements

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

VII. SHARE-BASED PAYMENT

1. Overview

	2010	2009
Total amount of employee service in consideration for which share-based payments were made	**1,106,794**	1,106,794

	2010	2009
Equity-settled share-based payments are as follows:		
Accumulated amount of equity-settled share-based payments in capital reserves	**462,220**	680,864
Total costs of equity-settled share-based payments in the year	**158,957**	299,594

2. Share incentive scheme

The implementation of the Phase I Share Incentive Scheme (Revised Version dated 5 February 2007) (hereinafter referred to as the "Share Incentive Scheme") commenced upon consideration and approval by shareholders at the first extraordinary general meeting of the Company for 2007 convened on 13 March 2007, after the receipt of a no-comment letter from the China Securities Regulatory Commission. The Company granted 47,980,000 Subject Shares to the Scheme Participants by way of the issue of new shares (A shares), including the grant to 3,435 Scheme Participants of Subject Share quotas with 43,182,000 shares (accounting for 90% of the Subject Share quotas under the Share Incentive Scheme, hereinafter referred to as the "First Award") and the reservation of 4,798,000 Subject Shares accounting for 10% of the Subject Share quotas under the Share Incentive Scheme. At the Twentieth Meeting of the Fourth Session of the Board of Directors held on 25 November 2008, the grant of the full amount of the reserved Subject Share quotas to 794 Scheme Participants (hereinafter referred to as the "Second Award") was considered and approved. The Scheme Participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company and its subsidiaries.

The grant price of the Share Incentive Scheme shall be the closing price of the Company's A shares as quoted on the Shenzhen Stock Exchange on the trading day immediately preceding the date of the Board Meeting at which the Share Incentive Scheme is reviewed. The price of the First Award was RMB30.05 per share. Scheme Participants shall pay the subscription amounts for the Subject Shares on the basis of the purchase of 5.2 Subject Shares for every 10 Subject Shares granted, out of which the subscription amounts for 3.8 Subject Shares shall be funded by Scheme Participants at their own cost and the subscription amounts for 1.4 Subject Shares shall be funded by the conversion of the deferred bonus that Scheme Participants would have received had they participated in the distribution of 2006 deferred bonus, calculated as a percentage of the grant price. The price of the Second Award was RMB21.28 per share. Scheme Participants shall pay the subscription amounts for the Subject Shares on the basis of the purchase of 5.2 Subject Shares for every 10 Subject Shares granted.

Notes to Financial Statements

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

VII. SHARE-BASED PAYMENT (continued)

2. Share incentive scheme (continued)

The Share Incentive Scheme shall be valid for 5 years, comprising a lock-up period of 2 years and an unlocking period of 3 years:

(1) The Lock-up Period shall last for a period of two years commencing on the date of approval of the Share Incentive Scheme by shareholders in a general meeting of the Company, during which the Subject Shares granted to Scheme Participants under the Share Incentive Scheme shall be subject to lock-up and shall not be transferable;

(2) The Unlocking Period shall last for three years following expiry of the Lock-up Period, during which Scheme Participants may, subject to unlocking conditions stipulated by the Share Incentive Scheme being satisfied, apply for unlocking in three tranches: the first unlocking period shall be the first year following the expiry of the Lock-up Period and the number of shares to be unlocked shall not exceed 20% of the aggregate number of Subject Shares granted; the second unlocking period shall be the second year following the expiry of the Lock-up Period and the number of shares to be unlocked shall not exceed 35% of the aggregate number of Subject Shares granted; the third unlocking period shall be the third year following the expiry of the Lock-up Period and the number of shares to be unlocked shall represent all outstanding Subject Shares.

The unlocking of Subject Shares shall be conditional upon the simultaneous fulfilment of certain conditions, including but not limited to the following:

(1) The Company's financial and accounting report for the most recent accounting year does not contain an audit report in which the certified public accountants indicate an opinion of disapproval or inability to express any opinion;

(2) The Scheme Participant has not been subject to administrative penalties by the CSRC due to material non-compliance by the Company during the past three years;

(3) The weighted average rates of return on net assets of ZTE for the years 2007, 2008 and 2009 shall be adopted as the results appraisal conditions to Scheme Participants' application for unlocking the Subject Shares in the first, second and third tranches, respectively. Such rates of return on net assets shall not be less than 10% (before or after extraordinary income/loss items, whichever is lower).

In accordance with the relevant terms of the Share Incentive Scheme, Subject Shares granted but which have lapsed in the absence of unlocking shall be repurchased and cancelled by the Company at the corresponding subscription amounts plus interest calculated at the prevailing call deposit interest rate published by the People's Bank of China.

Notes to Financial Statements

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

VII. SHARE-BASED PAYMENT (continued)

2. Share incentive scheme (continued)

The fair value of the Subject Shares was arrived at based on the market price of the Company's shares on the date of grant using the Black-Scholes model, which ranged from RMB21.28 to RMB36.81 per share. The aggregate fair value of the Subject Shares amounting to RMB1,106,794,000 is charged to profit and loss and the capital reserve as costs and expenses from the date of grant to the date on which the unlocking conditions are being fulfilled and the shares may be circulated according to the law. The Group has recognised an amount of RMB158,957,000 (2009: RMB299,594,000) at Share Incentive Scheme expenses for the year and an aggregate amount of RMB1,058,250,000 (2009: RMB899,293,000) has been recognised in expenses as at the end of the year on an accumulative basis.

The proposals of profit distribution and capitalisation from capital reserve for 2007 were implemented on 10 July 2008, whereby 4 shares were issued for every 10 shares held. The proposals of profit distribution and capitalisation from capital reserve for 2008 were implemented on 4 June 2009, whereby 3 shares were issued for every 10 shares held. As a result, the Subject Share quotas of the Phase I Share Incentive Scheme was adjusted to 87,323,600 shares accordingly, representing the adjustments of the Subject Share quotas under the First Award and the Second Award to 78,591,240 shares and 8,732,360 shares, respectively. Taking into consideration the departure of or waiver of participation in the Share Incentive Scheme by certain Scheme Participants, it was ratified at the Twenty-sixth Meeting of the Fourth Session of the Board of Directors of the Company held on 6 July 2009 that a total Subject Share quota of 85,050,238 shares had been granted to 4,022 Scheme Participants under the Share Incentive Scheme, and the registration of such shares with China Securities Depository and Clearing Company Limited, Shenzhen Branch was completed in July 2009. The total number of issued share capital of the Company has increased by 85,006,813 shares, after deducting 43,425 Subject Shares which have lapsed.

In accordance with the Share Incentive Scheme, Subject Shares under the First Award shall be subject to a lock-up period of two years commencing on 13 March 2007 (the date on which the Share Incentive Scheme was approved by the shareholders in a general meeting of the Company). As at 12 March 2009, the lock-up period for Subject Shares under the First Award had expired and the unlocking conditions had been fulfilled. For details of the unlocking of Subject Shares, please refer to Note 33.

Notes to Financial Statements

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

VIII. CONTINGENT EVENTS

1. In August 2006, a customer instituted arbitration against the Company to demand indemnity from the Company in the amount of PKR762,982,000 (approximately RMB58,643,000). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract to demand for damages. In February 2008, the arbitration authority issued its award ruling that an indemnity of PKR328,040,000 (approximately RMB25,213,000) 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. Currently the case is pending trial by the Supreme Court and civil court of Istanbul. 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. 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. Accordingly, the Company has not made any further provisions.

2. In April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth"), an engineering contractor of the Company, demanded the Company to increase the contract amount on the grounds that raw material prices had increased in connection with which it launched first a slowdown in work, followed later by total suspension. In September 2008, the Company instituted litigation with the Nanshan District People's Court, pleading for the revocation of the contract and court order of the evacuation of the work sites by the defendant, as well as a penalty payment for work delay in the amount of RMB24,912,000 and damages of RMB11,319,000 payable to the Company. The court handed the first trial judgement in July 2009, ruling that the contract between the Company and China Construction Fifth be revoked and a penalty payment for work delay in the amount of RMB12,817,000 be payable by China Construction Fifth. China Construction Fifth had appealed against the said judgement, As of now, court hearing for the second trial has been completed and the court has ordered trial of the case to be suspended pending the final judgement of the case of China Construction Fifth Division at the Intermediate Court.

   In October and November 2009, the Group further instituted two complaints with the Nanshan District People's Court, demanding China Construction Fifth to undertake a penalty payment for work delay in the amount of RMB30,615,000 and the payment of RMB39,537,000, representing the amount of work payments in excess of the total contract amount. Currently, the above cases are in the process of trial suspension.

   In July 2009, China Construction Fifth instituted a separate litigation with the Shenzhen Intermediate People's Court, demanding the Company to make a payment of RMB75,563,000 for raw materials and staff deployment. The said cases are currently in trial.

   Based on the legal opinion furnished by lawyers engaged by the Company and the existing judgements and current progress of the case, 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.

Notes to Financial Statements

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

VIII. CONTINGENT EVENTS (continued)

3. As at 31 December 2010, the Group had outstanding guarantees given to banks in respect of performance bonds amounting to RMB7,323,976,000.

4. As at 31 December 2010, the Group provided financial guarantee (including interests accruable) to independent customers for a maximum amount of RMB66,179,000 (31 December 2009: RMB66,796,000). The aforesaid guarantee will expire in December 2013 and September 2018.

IX COMMITMENTS

	2010	2009
Capital commitments		
Contracted but not provided for	**747,546**	1,240,388
Authorised by the Board but not yet contracted	**14,227,386**	5,833,950
	14,974,932	7,074,338
Investment commitments		
Contracted but performance not completed	**76,171**	18,850

X. POST BALANCE SHEET DATE EVENTS

Pursuant to the profit distribution proposal recommended by the Board, the Company will pay a cash dividend of RMB3 (before tax) for every 10 shares held on the basis of the total share capital of the Company as at 17 March 2011 less the number of restricted shares remaining in lock-up under the Share Incentive Scheme and the number of restricted shares that may be repurchased and cancelled in accordance with the implementation of the Share Incentive Scheme as at the A share record date for the purpose of the 2010 profit distribution (the "Record Date"), and will also issue 2 bonus shares for every 10 shares held to shareholders whose name appear in the register as at the Record Date through an increase in registered capital by way of capitalisation of capital reserves. In accordance with relevant provisions of the Share Incentive Scheme, application will be made in 2011 for the third unlocking of 45% of the Subject Shares granted, and restricted shares remaining in lock-up shall not be entitled to the cash dividend. As at 17 March 2011, 62,407,186 restricted shares remained in lock-up. The number of shares entitled to the cash dividend under the 2010 profit distribution proposal will be 2,804,324,498 shares in case the third unlocking is not completed by the Record Date, or a maximum of 2,856,004,914 shares in case the third unlocking is completed by the Record Date. The said profit distribution proposal is subject to approval by the annual general meeting of the Company.

Notes to Financial Statements

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

XI. OTHER SIGNIFICANT MATTERS

1. Leases

As lessee:

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:

	2010	2009
Within one year (including first year)	**449,170**	196,676
In the first to second years (including second year)	**306,334**	93,484
In the second to third years (including third year)	**233,020**	61,630
After the third year	**848,653**	73,864
	1,837,177	425,654

2. Financial instruments convertible into shares and outstanding at the end of the period

The Company has no financial instruments convertible into shares and outstanding as at 31 December 2010.

3. Segment reporting

Operating segments

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(1) The networks (communication system) segment includes wireless communications, wireline switch and access and optical and data communications.

(2) The terminals segment engages in the manufacture and sale of mobile phone handsets and data card products.

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that finance expenses, research and development costs, impairment losses, gain/(losses) from changes in fair values, investment income as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, cash, long-term equity investments, other receivables and other unallocated head office and corporate assets as these assets are managed on a group basis.

Notes to Financial Statements

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

XI. OTHER SIGNIFICANT MATTERS (continued)

3. Segment reporting (continued)

Operating segments (continued)

Segment liabilities exclude derivative financial instruments, loans, other payables, bonds cum warrants, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at prevailing market prices.

2010

	Network (communications systems)	Terminal products	Telecommunication software systems, services and other products	Total
Segment revenue				
Revenue from telecommunications systems contracts	41,990,133	–	6,898,968	48,889,101
Sales of goods and services	–	17,927,439	3,447,334	21,374,773
Sub-total	41,990,133	17,927,439	10,346,302	70,263,874
Segment results	10,218,562	1,105,023	1,701,218	13,024,803
Unallocated revenue				2,002,149
Unallocated cost				(9,595,994)
Finance costs				(1,198,477)
Gain from changes in fair values				83,597
Investment gains from associates				44,123
Total profit				4,360,201
Income tax				(883,719)
Net profit				3,476,482
Total assets				
Segment assets	36,764,820	7,898,628	9,058,794	53,722,242
Unallocated assets				30,430,115
Sub-total				84,152,357
Total liabilities				
Segment liabilities	10,274,691	700,294	2,531,665	13,506,650
Unallocated liabilities				45,683,709
Sub-total				59,190,359
Supplemental information				
Capital expenditure	2,277,154	972,217	561,087	3,810,458
Depreciation and amortization expenses	644,563	275,193	158,820	1,078,576
Asset impairment losses	188,403	80,438	46,422	315,263

Notes to Financial Statements

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

XI. OTHER SIGNIFICANT MATTERS (continued)

3. Segment reporting (continued)

Operating segments (continued)

2009

	Network (communications systems)	Terminal products	Telecommunication software systems, services and other products	Total
Segment revenue				
Revenue from telecommunications systems contracts	39,982,316	–	4,314,626	44,296,942
Sales of goods and services	–	13,071,519	2,904,102	15,975,621
Sub-total	39,982,316	13,071,519	7,218,728	60,272,563
Segment results	8,814,294	1,738,784	1,358,831	11,911,909
Unallocated revenue				1,391,420
Unallocated cost				(9,232,423)
Finance costs				(784,726)
Gain from changes in fair values				12,560
Investment gains from associates				26,002
Total profit				3,324,742
Income tax				(629,081)
Net profit				2,695,661
Total assets				
Segment assets	31,782,376	5,513,601	5,738,245	43,034,222
Unallocated assets				25,308,100
Sub-total				68,342,322
Total liabilities				
Segment liabilities	8,630,920	506,969	1,558,295	10,696,184
Unallocated liabilities				39,697,272
Sub-total				50,393,456
Supplemental information				
Capital expenditure	1,650,277	539,529	297,954	2,487,760
Depreciation and amortization expenses	675,516	158,021	113,415	946,952
Asset impairment losses	489,518	160,040	88,382	737,940

Notes to Financial Statements

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

XI. OTHER SIGNIFICANT MATTERS (continued)

3. Segment reporting (continued)

Group information

Geographic information

Revenue from external customers

	2010	2009
The PRC	**32,197,530**	30,404,275
Asia (excluding the PRC)	**12,687,912**	13,198,605
Africa	**10,639,010**	6,860,602
Europe, America and Oceania	**14,739,422**	9,809,081
	70,263,874	60,272,563

Revenue from external customers is analysed by geographic locations where the customers are located.

Total non-current assets

	2010	2009
The PRC	**7,195,011**	5,240,077
Asia (excluding the PRC)	**939,248**	749,818
Africa	**1,565,902**	1,317,425
Europe, America and Oceania	**377,909**	142,402
	10,078,070	7,449,722

Non-current assets are analysed by geographic locations where the assets (excluding financial assets and deferred tax assets) are located.

Information of major customers

Revenue of telecommunications system contracts from three major customers amounted to RMB24,609,704,000 (2009: RMB24,145,497,000).

Notes to Financial Statements

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

XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis

The main financial instruments of the group, except for derivatives, include bank loans, cash and etc. The main purpose of these financial instruments is to finance for the group's operation. The group has many other financial assets and liabilities arising directly from operation, such as trade receivables and trade payables and etc.

The Group entered into forward currency contracts and aimed at managing the foreign exchange risk in the group operation.

The major risks which come from the Group's financial instruments are the credit risk, liquidity risk and market risk.

Classification of financial instruments

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

2010

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	—	15,383,207	—	15,383,207
Derivative financial assets	123,365	—	—	123,365
Available-for-sale financial assets	—	—	342,706	342,706
Bills receivable	—	1,289,877	—	1,289,877
Trade receivables and long-term receivables	—	18,131,369	—	18,131,369
Factored trade receivables and factored long-term receivables	—	7,989,287	—	7,989,287
Other receivables excluding dividends receivable	—	1,387,908	—	1,387,908
Other non-current assets	—	1,090,086	—	1,090,086
	123,365	45,271,734	342,706	45,737,805

Notes to Financial Statements

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

XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Classification of financial instruments (continued)

2010 (continued)

Financial liabilities

	Financial liabilities dealt with at fair value through current profit or loss	Other financial liabilities	Total
Derivative financial liabilities	40,139	—	40,139
Bank loans	—	9,620,540	9,620,540
Bills payables	—	10,056,477	10,056,477
Trade payables	—	15,441,206	15,441,206
Bank advances on factored trade receivables and long-term trade receivables	—	7,989,287	7,989,287
Other payables (excluding accruals)	—	2,421,966	2,421,966
Bonds cum Warrants	—	3,755,790	3,755,790
Factored interest payable	—	392,211	392,211
Long-term financial guarantee contract	—	3,689	3,689
	40,139	49,681,166	49,721,305

Notes to Financial Statements

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

XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Classification of financial instruments (continued)

2009

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	—	14,496,808	—	14,496,808
Available-for-sale financial assets	—	—	253,760	253,760
Bills receivable	—	779,112	—	779,112
Trade receivables and long-term receivables	—	15,702,964	—	15,702,964
Factored trade receivables and factored long-term receivables	—	5,838,850	—	5,838,850
Other receivables excluding dividends receivable	—	1,058,244	—	1,058,244
Other non-current assets	—	608,359	—	608,359
	—	38,484,337	253,760	38,738,097

Financial liabilities

	Financial liabilities dealt with at fair value through current profit or loss	Other financial liabilities	Total
Bank loans	—	9,242,861	9,242,861
Bills payables	—	8,484,861	8,484,861
Trade payables	—	13,046,804	13,046,804
Bank advances on factored trade receivables and long-term trade receivables	—	5,838,850	5,838,850
Other payables (excluding accruals)	—	1,559,887	1,559,887
Bonds cum Warrants	—	3,632,681	3,632,681
Factored interest payable	—	255,052	255,052
Long-term financial guarantee contract	—	3,689	3,689
	—	42,064,685	42,064,685

Notes to Financial Statements

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

XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Credit risk

Credit risk is the risk of financial losses 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's other financial assets, which comprise cash, 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 accounts accounted for 38.21% of the total trade receivables, their risk profiles were relatively low and did not give rise to significant concentration of credit risk for the Group.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

For further quantitative disclosures on the Group's credit risk arising from trade receivables, other receivables and long-term trade receivables, please refer to Notes V.4, 5 and 10.

Notes to Financial Statements

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

XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Credit risk (continued)

The maturity profile of trade receivables, long-term receivables and other receivables not subject to impairment as at 31 December is analysed as follows:

2010

			Overdue for:			
	Total	**Not overdue/not impaired**	**Less than 1 year**	**1–2 years**	**2–3 years**	**Over 3 years**
Trade receivables	**17,563,925**	**3,839,776**	**12,799,479**	**877,934**	**46,736**	**–**
Long-term receivables	**567,444**	**567,444**	**–**	**–**	**–**	**–**
Other receivables	**1,389,783**	**–**	**1,195,542**	**172,501**	**13,522**	**8,218**

2009

			Overdue for:			
	Total	Not overdue/not impaired	Less than 1 year	1–2 years	2–3 years	Over 3 years
Trade receivables	15,319,215	4,583,346	10,307,625	413,242	15,002	–
Long-term receivables	383,749	383,749	–	–	–	–
Other receivables	1,059,829	–	793,213	200,422	61,830	4,364

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 profile of both its financial instruments and financial assets (e.g. trade receivables and 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 loans, all borrowings are repayable within one year.

Notes to Financial Statements

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

XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Liquidity risk (continued)

The maturity profile of financial assets and financial liabilities based on undiscounted contractual cash flow is summarised as follows:

2010

Financial assets

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Derivative financial assets	–	123,365	–	–	–	123,365
Cash	14,905,099	478,108	–	–	–	15,383,207
Available-for-sale financial assets	342,706	–	–	–	–	342,706
Bills receivable	–	1,289,877	–	–	–	1,289,877
Trade receivables and long-term receivables	13,724,149	3,839,776	391,292	124,648	97,133	18,176,998
Factored trade receivables and factored long-term receivables	–	3,016,569	1,868,598	1,228,695	1,875,425	7,989,287
Other receivables (excluding dividends receivable)	1,387,908	–	–	–	–	1,387,908
Other non-current assets	–	–	183,694	159,561	746,831	1,090,086
	30,359,862	8,747,695	2,443,584	1,512,904	2,719,389	45,783,434

Notes to Financial Statements

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

XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Liquidity risk (continued)

2010 (continued)

Financial liabilities

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	–	8,076,234	1,154,451	176,695	466,878	9,874,258
Derivative financial liabilities	–	40,139	–	–	–	40,139
Bills payable	–	10,056,477	–	–	–	10,056,477
Trade payables	15,441,206	–	–	–	–	15,441,206
Bank advances on factored trade receivables and long-term trade receivables	–	3,048,068	1,921,016	1,285,960	2,079,086	8,334,130
Other payables (excluding accruals)	2,309,797	112,169	–	–	–	2,421,966
Bonds cum warrants	–	32,000	32,000	4,032,000	–	4,096,000
Factored interest payable	–	–	88,947	75,604	334,944	499,495
Long-term financial guarantee contract	69,868	–	–	–	–	69,868
	17,820,871	21,365,087	3,196,414	5,570,259	2,880,908	50,833,539

Notes to Financial Statements

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

XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Liquidity risk (continued)

2009

Financial assets

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Cash	14,075,822	420,986	–	–	–	14,496,808
Available-for-sale financial assets	253,760	–	–	–	–	253,760
Bills receivable	–	779,112	–	–	–	779,112
Trade receivables and long-term receivables	10,735,869	4,583,346	127,464	149,289	144,661	15,740,629
Factored trade receivables and factored long-term receivables	–	2,870,221	1,376,961	420,902	1,457,781	6,125,865
Other receivables (excluding dividends receivable)	1,058,244	–	–	–	–	1,058,244
Other non-current assets	–	–	36,008	71,973	500,378	608,359
	26,123,695	8,653,665	1,540,433	642,164	2,102,820	39,062,777

Financial liabilities

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	–	7,142,977	1,250,739	875,666	366,967	9,636,349
Bills payable	–	8,484,861	–	–	–	8,484,861
Trade payables	13,046,804	–	–	–	–	13,046,804
Bank advances on factored trade receivables and long-term trade receivables	–	3,070,494	1,412,716	440,090	1,704,547	6,627,847
Other payables (excluding accruals)	1,486,019	73,868	–	–	–	1,559,887
Bonds cum warrants	–	32,000	32,000	32,000	4,032,000	4,128,000
Factored interest payable	–	–	69,981	48,127	228,532	346,640
Long-term financial guarantee contract	70,485	–	–	–	–	70,485
	14,603,308	18,804,200	2,765,436	1,395,883	6,332,046	43,900,873

Notes to Financial Statements

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

XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

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 maximize shareholders' value.

The Group manages its capital structure and makes adjustments, 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 2010.

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 ends of the reporting periods were as follows:

	2010 **RMB'000**	2009 RMB'000
Interest-bearing bank borrowings	**9,620,540**	9,242,861
Total equity	**24,961,998**	17,948,866
Total equity and interest-bearing bank borrowings	**34,582,538**	27,191,727
Gearing ratio	**28%**	34%

Interest rate risk

Interest rate risk is the risk that the fair value or 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 liabilities bearing interest at floating rates.

On 31 December 2010, 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 is to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The Group's policy is to maintain the fixed interest rate between 2% and 11.50%. On 31 December 2010, approximately 39% (2009: 55%) of the Group's interest bearing borrowings bore interests at fixed rates.

All of the interest-bearing borrowings with floating interest rate are in US$. If the bank loan interest rate and the variable rate generally increase or decrease 0.25%, the Group's profit before tax and shareholders' equity will accordingly decrease by RMB14,668,000 and increase by RMB9,895,000 for the years ended 31 December 2010 and 2009, respectively.

Notes to Financial Statements

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

XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Foreign currency risk

Foreign currency risk is the risk of volatility in the fair value of financial instruments or future cash flow 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 denominated in US$ and RMB and certain portion of the bank loans is denominated in US$. The Group tends to avoid foreign currency exchange risk or provide for revenue 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 exchange rates may lead to the changes in the Group's profit before tax, with all other variables held constant, as at the balance sheet date.

	Increase/decrease in US dollars exchange rate	Impact on the Group's profit before tax
2010		
Weaker RMB against USD	**+3%**	**199,750**
Stronger RMB against USD	**–3%**	**(199,750)**
2009		
Weaker RMB against USD	+3%	(60,243)
Stronger RMB against USD	–3%	60,243

	Increase/decrease in EUR exchange Rate	Impact on the Group's profit before tax
2010		
Weaker RMB against EUR	**+5%**	**123,964**
Stronger RMB against EUR	**–5%**	**(123,964)**
2009		
Weaker RMB against EUR	+5%	106,988
Stronger RMB against EUR	–5%	(106,988)

Notes to Financial Statements

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

XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Fair value

The fair values of the financial instruments of the Group did not differ significantly from their book values.

Fair value refers to the amount at which assets are exchanged and debts settled between two informed and willing parties in an arm's length transaction. Methods and assumptions adopted in the estimation of fair values are explained as follows:

The fair values of cash, bills receivable, trade receivables, bills payable and trade payables approximate their carrying values given relatively short outstanding periods.

The fair values of long-term receivables, long/short-term loans, bonds payable are determined on the basis of discounted future cash flow. The discount rate adopted is the rate of market yield for other financial instruments with substantially identical contract terms and characteristics.

The fair values of listed financial instruments are determined on the basis of market value.

The Group has entered into derivative financial instruments with a number of counterparties (who are mainly financial institutions with sound credit rating). Derivative financial instruments include mainly forward exchange contracts, which are measured using valuation techniques similar to those adopted for forward pricing. The valuation model covers a number of inputs observable in the market, such as the credit quality of the counterparty, spot and forward exchange rates and interest rate curves. The carrying value of a forward exchange contract is identical with its fair value. As at 31 December 2010, the mark-to-market value of derivative financial assets represents the net value after offsetting credit valuation adjustments attributable to the risk of counterparty default.

The Group's measurement of fair value is distinguished into three levels:

The first level is the measurement of fair value as prices of identical assets or liabilities quoted in an active market on the date of measurement, where such prices are available; the second level is the measurement of fair value as prices of similar assets or liabilities quoted in an active market or prices of identical or similar assets or liabilities quoted in an inactive market on the date of measurement, after necessary adjustment, where such prices are available; the third level is the measurement of fair value on the basis of other parameters that reflect market participants' valuation of the assets or liabilities concerned, if no comparable traded market prices for identical or similar assets are available.

Financial instruments measured at fair value:

2010

	Level 1	Level 2	Level 3	Total
Derivative financial assets	**123,365**	**–**	**–**	**123,365**
Derivative financial liabilities	**(40,139)**	**–**	**–**	**(40,139)**

Notes to Financial Statements

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

XII. COMPARATIVE DATA

Certain comparative data have been restated to conform with the presentation requirements for the current year.

XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Trade receivables

	2010			2009		
	Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
RMB	**6,751,582**	**1.0000**	**6,751,582**	6,301,758	1.0000	6,301,758
USD	**1,993,012**	**6.6227**	**13,199,121**	1,590,189	6.8282	10,858,129
EUR	**375,275**	**8.8065**	**3,304,859**	222,036	9.7971	2,175,309
Others			**1,028,025**			221,935
			24,283,587			19,557,131

Aging analysis of trade receivables:

	2010	2009
Within 1 year	**18,947,934**	15,008,812
1–2 years	**2,762,847**	3,567,732
2–3 years	**2,363,208**	1,350,116
Over 3 years	**1,862,034**	1,015,890
	25,936,023	20,942,550
Less: Bad debt provision for trade receivables	**1,652,436**	1,385,419
	24,283,587	19,557,131

	2010				2009			
	Book balance		**Bad debt provision**		Book balance		Bad debt provision	
	Amount	**Percentage (%)**	**Amount**	**Percentage (%)**	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant for which separate bad debt provision is made	**482,379**	**2**	**482,379**	**100**	485,337	2	485,337	100
For which collective bad debt provision is made								
0–6 months	**15,083,368**	**58**	**–**	**–**	11,763,089	56	–	–
7–12 months	**3,864,566**	**15**	**132,274**	**3**	3,245,723	16	109,109	3
13–18 months	**1,802,688**	**7**	**277,533**	**15**	2,102,959	10	326,631	16
19–24 months	**960,159**	**4**	**156,436**	**16**	1,464,773	7	245,389	17
2–3 years	**2,363,208**	**9**	**553,963**	**23**	1,129,364	5	160,654	14
Over 3 years	**1,379,655**	**5**	**49,851**	**4**	751,305	4	57,529	8
	25,453,644	**98**	**1,170,057**	**5**	20,457,213	98	899,312	4
	25,936,023	**100**	**1,652,436**	**6**	20,942,550	100	1,385,419	7

Notes to Financial Statements

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

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

1. Trade receivables (continued)

Movements in provisions for trade receivables:

	Opening balance of the year	Provision for the year	Reduction during the year		Closing balance of the year
			Write-back	Write-off	
2010	**1,385,419**	**267,507**	**—**	**(490)**	**1,652,436**
2009	1,233,215	395,054	—	(242,850)	1,385,419

There was no write-back or recovery of individually significant trade receivables, for which had debt provision had been individually made, in 2010 (2009: Nil).

	2010	2009
Total trade receivables from top five accounts	**11,738,548**	7,606,385
As a percentage of total trade receivables	**45.26%**	36.32%

As at 31 December 2010, trade receivables amounting to RMB3,579,000 were due from shareholders holding 5% or more in the voting shares (31 December 2009: Nil).

Transfer of trade receivables that did not qualify for derecognition was separately classified as "Factored trade receivables" and "Bank advances on factored trade receivables" amounting to RM2,864,307,000(31 December 2009: RMB2,727,445,000).

2. Other receivables

The aging analysis of other receivables:

	2010	2009
Within 1 year	**5,152,767**	2,448,301
1 to 2 years	**166,324**	671,281
2 to 3 years	**264,816**	111,623
Over 3 years	**94,343**	9,162
	5,678,250	3,240,367
Less: Bad debt provision for other receivables	**—**	—
	5,678,250	3,240,367

	2010	2009
Total other receivables from top five accounts	**4,124,601**	2,402,956
As a percentage of total amounts of other receivables	**72.64%**	74.16%

As at 31 December 2010, there was no outstanding amount due from shareholders holding 5% or more in the voting shares (31 December 2009: Nil).

Notes to Financial Statements

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

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

3. Available-for-sale financial assets

	2010	2009
Available-for-sale equity instruments	**244,448**	244,448

4. Long-term receivables

	2010	2009
Loans granted to subsidiaries (Note 1)	**764,790**	1,011,281
Installment payments for the provision of telecommunication system construction projects	**555,050**	410,422
Less: Bad debt provision for long-term receivables	**57,529**	73,771
	1,262,311	1,347,932

Note 1: Loans granted to subsidiaries were interest-free, unsecured and had no fixed term of repayment. The Directors are of the view that the advances were deemed loans similar to equity granted to subsidiaries.

Movements in bad debt provision for long-term receivables during the year are as follows:

	Opening balance	Provision for the year	Reduction during the year		Closing balance
			Write-back	Write-off	
2010	**73,771**	**—**	**(16,242)**	**—**	**57,529**
2009	136,888	—	(63,117)	—	73,771

Transfer of trade receivables that did not qualify for derecognition was separately classified as "Factored long-term trade receivables" and "Bank advances on factored long-term trade receivables" amounting to RMB5,097,718,000 (31 December 2009: RMB3,093,629,000).

5. Long-term equity investments

		2010	2009
Equity method			
Associates	(1)	**809,174**	348,665
Cost method			
Subsidiaries	(2)	**2,807,398**	1,948,720
Less: Provision for impairment in long-term equity Investments	(3)	**100,748**	100,748
		3,515,824	2,196,637

Notes to Financial Statements

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

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

5. Long-term equity investments (continued)

2010

(1) Associates

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
Nationz Technologies Inc.	31,559	61,128	479,367	540,495	20%	20%	–
KAZNURTEL Limited Liability Company	3,998	2,477	–	2,477	49%	49%	–
ZTE Software Technology (Nanchang) Company Limited	4,500	–	–	–	30%	30%	–
Zhongxing Energy Company Limited	300,000	280,258	(18,337)	261,921	23.26%	23.26%	–
思卓中興（杭州）科技有限公司	3,345	2,804	(490)	2,314	49%	49%	–
上海中興群力信息科技有限公司	2,000	1,998	(31)	1,967	40%	40%	–
		348,665	460,509	809,174			–

Notes to Financial Statements

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

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

5. Long-term equity investments (continued)

2010 (continued)

(2) Subsidiaries

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
ZTE Kangxun Telecom Company, Limited	45,000	45,000	–	45,000	90%	90%	540,000
ZTE (USA) Inc.	5,395	5,395	–	5,395	100%	100%	–
Wuxi Zhongxing Optoelectronics Technologies Company Limited	6,500	6,500	–	6,500	65%	65%	2,600
ZTE (H.K.) Limited	449,364	449,364	–	449,364	100%	100%	–
Anhui Wantong Posts and Telecommunication Company Limited	11,329	11,329	–	11,329	51%	51%	–
Telrise (Cayman) Telecom Ltd.	21,165	21,165	–	21,165	100%	100%	–
Shenzhen Guoxin Electronics Development Company Limited	29,700	9,700	20,000	29,700	99%	99%	–
Congo-Chine Telecom S.A.R.L	72,835	72,835	–	72,835	51%	51%	–
Yangzhou Zhongxing Mobile Telecom Company Limited	3,900	3,900	–	3,900	65%	65%	–
Shenzhen Zhongxing Mobile Technology Company Limited	31,666	31,666	–	31,666	80%	80%	23,750
Nanjing ZTEsoft Technology Company Limited	45,489	45,489	–	45,489	76%	76%	–
ZTE (UK) Ltd.	5,285	4,531	754	5,285	100%	100%	–
ZTE Do Brasil LTDA	18,573	18,573	–	18,573	100%	100%	–
Shenzhen Zhongxing Software Company Limited	36,500	36,500	–	36,500	73%	73%	730,000
ZTE Integration Telecom Limited	41,250	41,250	–	41,250	80%	80%	–
ZTE Wistron Telecom AB	2,137	114	2,023	2,137	100%	100%	–
ZTE-Communication Technologies, Ltd.	6,582	6,582	–	6,582	100%	100%	–
ZTE Corporation Mexico S. DE R. L DE C.V.	41	41	–	41	100%	100%	–
Shenzhen Changfei Investment Company Limited	15,300	15,300	–	15,300	51%	51%	–
Zhongxing Telecom Pakistan (Private) Ltd.	5,279	5,279		5,279		0%	
Guangdong New Pivot Technology & Service Company Limited	4,500	4,500	–	4,500	90%	90%	–
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	–	45,000	99%	99%	–
Shanghai Zhongxing Telecom Equipment Technology Company Limited	5,100	5,100	–	5,100	51%	51%	3,570
ZTE Holdings (Thailand) Co., Ltd.	10	5	5	10	100%	100%	–

Notes to Financial Statements

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

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

5. Long-term equity investments (continued)

2010 (continued)

(2) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
ZTE (Thailand) Co., Ltd.	5,253	5,253	–	5,253	100%	100%	–
Shenzhen Special Equipment Company Limited	540	540	–	540	54%	54%	3,564
ZTE Telecom India Private Ltd.	258,361	258,361	–	258,361	100%	100%	–
ZTE Romania S.R.L.	827	827	–	827	100%	100%	–
ZTE (Malaysia) Corporation SDN. BHD.	496	496	–	496	100%	100%	–
Xi'an Zhongxing Jing Cheng Communication Company Limited	10,500	10,500	–	10,500	70%	70%	2730
Closed Joint Stock Company TK Mobile	16,871	16,871	–	16,871	51%	51%	–
PT. ZTE Indonesia	15,276	1,654	13,622	15,276	100%	100%	–
Shenzhen Zhongxing Netview Technology Company Limited	6,000	6,000	–	6,000	80%	80%	9,000
Shenzhen Zhongliancheng Electronic Development Company Limited (深圳市中聯成電子發展有限公司)	2,100	2,100	–	2,100	100%	100%	–
深圳市興意達通訊技術有限公司	5,000	5,000	–	5,000	100%	100%	–
Xi'an Zhongxing New Software Company Limited	600,000	600,000	–	600,000	100%	100%	400,000
中興國通通訊裝備技術（北京）有限公司	2,000	2,000	–	2,000	51%	51%	–
Shenzhen Zhongxing ICT Company Limited	24,000	24,000	–	24,000	80%	80%	–
中興通訊（杭州）有限責任公司	100,000	100,000	–	100,000	100%	100%	–
深圳市中興和泰酒店投資管理有限公司	30,000	30,000	–	30,000	100%	100%	–
Shenzhen ZTE Capital Management Company Limited	6,600	–	6,600	6,600	55%	55%	–
ZTE (Heyuan) Company Limited	500,000	–	500,000	500,000	100%	100%	–
深圳市中興微電子技術有限公司	15,674	–	15,674	15,674	90%	90%	–
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise	300,000	–	300,000	300,000	30%	N/A	–
		1,948,720	858,678	2,807,398			1,715,214

Notes to Financial Statements

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

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

5. Long-term equity investments (continued)

2010 (continued)

(3) Provisions for long-term equity investments

	Opening and closing balance
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
Shenzhen Zhongxing Mobile Technology Company Limited	17,657
ZTE (UK) Ltd.	4,533
ZTE Do Brasil LTDA	10,059
ZTE Integration Telecom Limited	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
	100,748

2009

(1) Associates

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
Nationz Technologies Inc.	31,559	27,457	33,671	61,128	26.67%	26.67%	–
KAZNURTEL Limited Liability Company	3,988	2,477	–	2,477	49%	49%	–
ZTE Software Technology (Nanchang) Company Limited	4,500	3,398	(3,398)	–	30%	30%	–
Zhongxing Energy Company Limited	300,000	55,503	224,755	280,258	23.26%	23.26%	–
思卓中興（杭州）科技有限公司	3,345	3,292	(488)	2,804	49%	49%	–
上海中興群力信息科技有限公司	2,000	–	1,998	1,998	40%	40%	–
		92,127	256,538	348,665			–

Notes to Financial Statements

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

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

5. Long-term equity investments (continued)

2009 (continued)

(2) Subsidiaries

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
ZTE Kangxun Telecom Company, Limited	45,000	45,000	–	45,000	90%	90%	–
ZTE (USA) Inc.	5,395	5,381	14	5,395	100%	100%	–
Wuxi Zhongxing Optoelectronics Technologies Company Limited	6,500	3,920	2,580	6,500	65%	65%	2,600
ZTE (H.K.) Limited	449,364	449,364	–	449,364	100%	100%	–
Anhui Wantong Posts and Telecommunication Company Limited	11,329	15,698	(4,369)	11,329	51%	51%	3,172
Telrise (Cayman) Telecom Ltd.	21,165	21,165	–	21,165	100%	100%	–
Shenzhen Guoxin Electronics Development Company Limited	9,700	29,700	(20,000)	9,700	99%	99%	–
Congo-Chine Telecom S.A.R.L	72,836	55,800	17,036	72,836	51%	51%	1,081
Yangzhou Zhongxing Mobile Telecom Company Limited	3,900	3,900	–	3,900	65%	65%	–
Shenzhen Zhongxing Mobile Technology Company Limited	31,666	45,799	(14,133)	31,666	80%	80%	15,833
ZTEsoft Technology Company Limited	45,489	23,982	21,507	45,489	76%	76%	22,800
ZTE (UK) Ltd.	4,531	5,286	(755)	4,531	100%	100%	–
ZTE Do Brasil LTDA	18,573	18,573	–	18,573	100%	100%	–
Shenzhen Zhongxing Software Company Limited	36,500	36,500	–	36,500	73%	73%	–
ZTE Integration Telecom Limited	41,250	41,261	(11)	41,250	80%	80%	–
ZTE Wistron Telecom AB	114	3,137	(3,023)	114	100%	100%	–
ZTE-Communication Technologies, Ltd.	6,582	4,188	2,394	6,582	100%	100%	–
ZTE Corporation Mexico S. DE R. L DE C.V.	41	41	–	41	100%	100%	–
Shenzhen Changfei Investment Company Limited	15,300	15,300	–	15,300	51%	51%	3,825
Zhongxing Telecom Pakistan (Private) Ltd.	5,279	2,971	2,308	5,279	93%	93%	–
Guangdong New Pivot Technology & Service Company Limited	4,500	13,500	(9,000)	4,500	90%	90%	–
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	–	45,000	99%	99%	990,000
Shanghai Zhongxing Telecom Equipment Technology Company Limited	5,100	5,100	–	5,100	51%	51%	2,550
ZTE Holdings (Thailand) Co., Ltd.	5	10	(5)	5	100%	100%	–
ZTE (Thailand) Co., Ltd.	5,253	5,040	213	5,253	100%	100%	–
Shenzhen Special Equipment Company Limited	540	540	–	540	54%	54%	2,430
ZTE Telecom India Private Ltd.	258,361	196,826	61,535	258,361	100%	100%	–
ZTE Romania S.R.L.	827	827	–	827	100%	100%	–
ZTE (Malaysia) Corporation SDN. BHD.	496	496	–	496	100%	100%	–
ZiMax (Caymen) Holding Ltd.	–	45,485	(45,485)	–	–	–	–
Xi'an Zhongxing Jing Cheng Communication Company Limited	10,500	11,396	(896)	10,500	70%	70%	–
Closed Joint Stock Company TK Mobile	16,870	4,258	12,612	16,870	51%	51%	–
PT. ZTE Indonesia	1,654	1,654	–	1,654	100%	100%	–
Shenzhen Zhongxing Netview Technology Company Limited	6,000	6,000	–	6,000	80%	80%	–
Shenzhen Zhongliancheng Electronic Development Company Limited (深圳市中聯成電子發展有限公司)	2,100	600	1,500	2,100	100%	100%	–

Notes to Financial Statements

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

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

5. Long-term equity investments (continued)

2009 (continued)

(2) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
深圳市興意達通訊技術有限公司	5,000	5,000	–	5,000	100%	100%	–
Xi'an Zhongxing New Software Company Limited	600,000	600,000	–	600,000	100%	100%	–
中興國通通訊裝備技術（北京）有限公司	2,000	–	2,000	2,000	51%	51%	–
Shenzhen Zhongxing ICT Company Limited	24,000	–	24,000	24,000	80%	80%	–
中興通訊（杭州）有限責任公司	100,000	–	100,000	100,000	100%	100%	–
深圳市中興和泰酒店投資管理有限公司	30,000	–	30,000	30,000	100%	100%	–
		1,768,698	180,022	1,948,720			1,044,291

(3) Provision for long-term equity investments

	Opening balance	Increase/ decrease during the year	Closing balance
ZTE (USA) Inc.	5,381	–	5,381
Telrise (Cayman) Telecom Ltd.	12,970	–	12,970
Shenzhen Guoxin Electronics Development Company Limited	23,767	–	23,767
Yangzhou Zhongxing Mobile Telecom Company Limited	3,900	–	3,900
Shenzhen Zhongxing Mobile Technology Company Limited	17,657	–	17,657
ZTE (UK) Ltd.	4,533	–	4,533
ZTE Do Brasil LTDA	10,059	–	10,059
ZTE Integration Telecom Limited	4,591	–	4,591
ZTE Wistron Telecom AB	2,030	–	2,030
ZTE Corporation Mexico S. DE R. L DE C.V.	41	–	41
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	–	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656	–	9,656
ZTE Holdings (Thailand) Co., Ltd.	10	–	10
ZTE (Thailand) Co., Ltd.	205	–	205
ZTE Telecom India Private Ltd.	1,654	–	1,654
ZTE Romania S.R.L.	827	–	827
ZTE (Malaysia) Corporation SDN.BHD.	496	–	496
ZiMax (Cayman) Holding Ltd.	12,317	(12,317)	–
	113,065	(12,317)	100,748

Notes to Financial Statements

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

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

6. Operating revenue and costs

Operating revenue is analysed as follows:

	2010	2009
Revenue	**62,316,651**	55,008,957
Other income	**34,711**	48,731
	62,351,362	55,057,688

Operating cost is analysed as follows:

	2010	2009
Costs of sales	**53,554,393**	45,618,206
Other operating expenses	**10,095**	15,923
	53,564,488	45,634,129

Sales to the top five customers of the Group generated revenue of RMB27,897,433,000 in 2010 (2009: RMB27,747,254,000), accounting for 44.77% (2009: 50.44%) of the operating revenue of the Group.

7. Investment income

	2010	2009
Investment income from long-term equity investment under equity method	**20,192**	12,089
Investment income from long-term equity investment under cost method	**1,721,237**	1,046,391
Investment income/(loss) from the disposal of derivative financial instruments	**6,699**	(10,210)
Investment income from the disposal of long-term equity investments	**440,318**	3,101
	2,188,446	1,051,371

In 2010, investment income from long-term equity investments under cost method mainly comprised dividend distribution of RMB730,000,000 from Shenzhen Zhongxing Software Company Limited, RMB540,000,000 from ZTE Kangxun Telecom Company Limited and RMB400,000,000 from Xi'an Zhongxing New Software Company Limited. In 2009, investment income from long-term equity investments under cost method mainly comprised 2009 dividend distribution of RMB990,000,000 from Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited.

As at 31 December 2010, the Company was not subject to significant restrictions in remitting its investment income.

Notes to Financial Statements

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

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

8. Supplemental information on the cash flow statement

Reconciliation of net profit to cash flow from operating activities:

	2010	2009
Net profit	**323,088**	733,826
Add: Impairment losses	**304,305**	492,847
Depreciation of fixed assets	**439,093**	390,489
Amortisation of intangible assets and development cost	**98,402**	107,273
Loss on disposal of fixed assets, intangible assets and other long-term assets	**10,927**	10,455
Gain/(loss) from changes in fair value	**(23,984)**	(12,560)
Finance expenses	**659,500**	634,029
Investment income	**(2,188,446)**	(1,051,371)
Increase in deferred tax assets	**(64,879)**	(151,355)
Increase/(decrease) in deferred tax liabilities	**64,905**	(6,099)
Increase in inventories	**(1,175,676)**	(726,008)
Increase in operating receivables	**(9,782,504)**	(9,684,017)
Increase in operating payables	**12,297,690**	10,843,454
Equity settled share expenses	**158,957**	299,594
Increase in cash subject to ownership restrictions	**(378,790)**	(889,484)
Net cash flows from operating activities	**742,588**	991,073

Supplementary Information to Financial Statements

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

1. BREAKDOWN OF EXTRAORDINARY GAINS/LOSSES

	Amount for 2010
Gain/(loss) from the disposal of non-current assets	**(24,094)**
Investment gains from disposal of long-term equity investment	**440,318**
Profit and loss of changes in fair value arising from holding of trading financial assets and trading financial liabilities except for valid straddle business relevant to normal business of the company, as well as investment gain realized from disposal of trading financial assets, trading financial liabilities and financial assets available for sale	**90,295**
Net amount of other non-operating income and expenses	**51,878**
Other gain/(loss) items within the definition of extraordinary gain/(loss)	**50,269**
Effect of income tax	**91,300**
	517,366

Note: The Group recognizes extraordinary items in accordance with "Explanatory Announcement for Information Disclosure by Issuers of Public Securities No. 1 — Extraordinary Items" (CSRC Announcement [2008] No. 43). The extraordinary gain/(loss) items within the definition of extraordinary gain/(loss), and the extraordinary gain/(loss) items defined as ordinary gain/(loss) items:

	Amount for 2010	Reason
Refund of VAT on software products	**1,341,613**	In line with national policies and received on an ongoing basis
Refund of individual tax	**5,437**	In line with national policies and received on an ongoing basis

2. 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 auditor for the Group and Company's financial statements prepared under HKFRSs.

Supplementary Information to Financial Statements

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

3. RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE

2010

	Weighted average return on net assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	**15.32%**	**1.17**	**1.15**
Net profit after extraordinary items attributable to ordinary shareholders of the Company	**12.88%**	**0.99**	**0.97**

2009

	Weighted average return on net assets (%)	Earnings per share (Restated)	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	15.83%	0.93	0.90
Net profit after extraordinary items attributable to ordinary shareholders of the Company	15.06%	0.89	0.86

Supplementary Information to Financial Statements

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

4. ANALYSIS OF CHANGE IN FINANCIAL STATEMENT ITEMS

Balance sheet items	Analysis of reasons
Bills receivable	Mainly attributable to more frequent receipts of payments in the form of acceptances
Other receivables	Mainly attributable to the increase in tax rebates receivable
Available-for-sale financial assets	Mainly attributable to the increase in investments in available-for-sale financial assets
Long-term trade receivables	Mainly attributable to the offering of more favourable payment terms to customers
Factored long-term trade receivables	Mainly as a result of growth in sales and the corresponding increase in factored trade receivables
Long-term equity investments	Mainly reflecting the increase of shareholders' equity in an associate attributable to the Company as a result of proceeds received through the IPO listing of the associate.
Fixed assets	Mainly attributable to the research and development plants were put into used.
Intangible assets	Mainly attributable to the increase in the land use rights.
Deferred development costs	Mainly as a result of capitalisation of R&D expenses in communications systems and certain handset products
Long-term deferred assets	Mainly attributable to the increase during the period in telecommunications equipment for which profit-sharing agreements had been entered into with carriers
Other non-current assets	Mainly as a results of non-current funds derived from factored trade receivable arrangements
Short-term loans	Mainly attributable to the increase in loans to meet cash flow requirements
Staff and welfare payable	Mainly as a result of the increase in salaries, bonus, relevant labour union funds and staff education funds payable
Taxes payable	Mainly as a result of the increase in deductible Input VAT tax and income tax actually paid
Dividend payable	Mainly attributable to the increase in dividend payable to minority shareholders and the increase in dividend distribution by subsidiaries
Other payables	Mainly attributable to the increase in payments for labour housing
Provisions	Mainly attributable to the increase in provision for product warranty
Non-current liabilities due within one year	Mainly attributable to the maturity during the year of certain non-current liabilities maturing due within one year
Factored long-term trade receivables	Mainly attributable to the increase in factored trade receivables in line with the growth of the Company's sales
Other non-current liabilities	Mainly attributable to the increase in factored interest payable
Deferred tax liabilities	Mainly attributable to the investment gain from the IPO of the associate

Supplementary Information to Financial Statements

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

4. ANALYSIS OF CHANGE IN FINANCIAL STATEMENT ITEMS (continued)

Balance sheet items (continued)	Analysis of reasons
Share capital	Mainly reflecting the increase in share capital following the implementation of the 2009 profit distribution, the new H share placing and the exercise of A share warrants.
Capital reserves	Mainly reflecting share premium arising from the new H share placing and the exercise of A share warrants
Restricted shares remaining in lock-up	Mainly reflecting the unlocking of certain Subject Shares under the Phase I Share Incentive Scheme
Minority interests	Mainly attributable to the increase in minority interests in subsidiaries

Income Statement Items	Analysis of reasons
Taxes and surcharges	Mainly as a result of the increase in income subject to business tax
Finance expenses	Mainly attributable to exchange losses arising from exchange rate fluctuations
Asset impairment losses	Mainly attributable to the decrease in bad debt provision and the write-back of provision for impairment of certain inventories
Gains/losses from change in fair values	Mainly attributable to the increase in gains from fair-value change of fixed-income derivative investments
Investment income	Mainly attributable to the recognition of investment gains as a result of the listing of Nationz Technologies, Inc., an associate of the Company
Non-operating income	Mainly attributable to the increase in software VAT tax rebates.
Non-operating expenses	Mainly attributable to the increase in compensation payments
Income tax	Mainly as a result of growth in pre-tax profit and profit of certain subsidiaries
Other comprehensive income	Mainly reflecting losses arising from the translation of accounts denominated in foreign currencies

Cash flow statement items	Analysis of reasons
Net cash flow from operating activities	Mainly attributable to the increase in cash paid for the purchase of goods and services and other cash paid in relation to operating activities
Net cash flow from investing activities	Mainly attributable to the increase in cash paid for the purchase of fixed assets, intangible assets and other long-term assets.
Net cash flow from financing activities	Mainly attributable to the increase in proceeds raised from the placing of new H shares and the exercise of A share warrants
Effect of exchange rate differences on cash	Mainly attributable to the decrease in exchange losses caused by exchange rate volatility

Independent Auditors' Report

ERNST & YOUNG
安永會計師事務所

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

We have audited the consolidated financial statements of ZTE Corporation (the "Company") and its subsidiaries (together, the "Group") set out on pages 272 to 367, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, 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.

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street, Central

Hong Kong
17 March 2011

Consolidated Statement of Comprehensive Income

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
REVENUE	5	**70,263,874**	60,272,563
Cost of sales		**(48,598,958)**	(41,667,788)
Gross profit		**21,664,916**	18,604,775
Other income and gains	5	**2,639,807**	1,723,498
Research and development costs		**(7,091,971)**	(5,781,583)
Selling and distribution costs		**(8,890,214)**	(7,157,844)
Administrative expenses		**(2,524,001)**	(2,735,186)
Other expenses		**(753,907)**	(603,176)
Finance costs	7	**(728,552)**	(751,744)
Share of profits and losses of associates		**44,123**	26,002
PROFIT BEFORE TAX	6	**4,360,201**	3,324,742
Income tax expense	10	**(883,719)**	(629,081)
PROFIT FOR THE YEAR		**3,476,482**	2,695,661
Attributable to:			
Owners of the parent	11	**3,250,247**	2,458,121
Non-controlling interests		**226,235**	237,540
		3,476,482	2,695,661
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**41,399**	8,644
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**41,399**	8,644
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**3,517,881**	2,704,305
Attributable to:			
Owners of the parent		**3,301,525**	2,486,224
Non-controlling interests		**216,356**	218,081
		3,517,881	2,704,305
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**RMB1.17**	RMB0.93
Diluted		**RMB1.15**	RMB0.90

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

Consolidated Statement of Financial Position

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**7,720,276**	6,057,574
Prepaid land lease payments	16	**758,805**	503,771
Intangible assets	17	**1,582,564**	877,397
Investment in a jointly-controlled entity	19	**2,255**	2,255
Investments in associates	20	**915,734**	438,027
Available-for-sale investments	21	**342,706**	253,760
Long-term trade receivables	24	**567,444**	383,749
Factored long-term trade receivables	25	**4,972,718**	2,968,629
Deferred tax assets	36	**655,245**	643,918
Pledged deposits	28	**1,090,086**	608,359
Total non-current assets		**18,607,833**	12,737,439
CURRENT ASSETS			
Prepaid land lease payments	16	**16,425**	10,980
Inventories	22	**12,103,670**	9,324,800
Amount due from customers for contract works	23	**14,208,039**	11,388,496
Trade and bills receivables	24	**18,853,802**	16,098,327
Factored trade receivables	25	**3,016,569**	2,870,221
Prepayments, deposits and other receivables	26	**3,196,314**	2,537,793
Derivative financial instruments	27	**123,365**	—
Pledged deposits	28	**407,009**	420,986
Time deposits with original maturity of over three months	28	**71,099**	—
Cash and cash equivalents	28	**14,905,099**	14,075,822
Total current assets		**66,901,391**	56,727,425
CURRENT LIABILITIES			
Trade and bills payables	29	**25,497,683**	21,531,665
Amount due to customers for contract works	23	**2,772,669**	2,519,706
Other payables and accruals	30	**9,320,689**	7,285,229
Derivative financial instruments	27	**40,139**	—
Interest-bearing bank borrowings	31	**7,901,230**	6,846,468
Bank advances on factored trade receivables	25	**3,016,569**	2,870,221
Tax payable		**885,728**	1,147,347
Dividends payable		**136,302**	16,966
Total current liabilities		**49,571,009**	42,217,602
NET CURRENT ASSETS		**17,330,382**	14,509,823
TOTAL ASSETS LESS CURRENT LIABILITIES		**35,938,215**	27,247,262

continued/...

Consolidated Statement of Financial Position (continued)

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**35,938,215**	27,247,262
NON-CURRENT LIABILITIES			
Bonds cum warrants	32	**3,755,790**	3,632,681
Interest-bearing bank borrowings	31	**1,719,310**	2,396,393
Deferred tax liabilities	36	**89,167**	3,924
Bank advances on factored long-term trade receivables	25	**4,972,718**	2,968,629
Financial guarantee contract	42	**3,689**	3,689
Provision for retirement benefits	33	**43,332**	38,028
Other long-term payables	34	**392,211**	255,052
Total non-current liabilities		**10,976,217**	9,298,396
Net assets		**24,961,998**	17,948,866
EQUITY			
Equity attributable to owners of the parent			
Issued capital	37	**2,866,732**	1,831,336
Shares subject to lock-up under the Share Incentive Scheme	40	**(276,266)**	(447,235)
Equity component of bonds cum warrants	32	**—**	580,210
Reserves	39(a)	**19,662,109**	14,308,531
Proposed final dividends	12	**841,297**	552,425
		23,093,872	16,825,267
Non-controlling interests		**1,868,126**	1,123,599
Total equity		**24,961,998**	17,948,866

Hou Weigui
Director

Shi Lirong
Director

Consolidated Statement of Changes in Equity

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2010

		Attributable to owners of the parent											
		Issued capital	Capital reserve	Equity component of bonds cum warrants	Share Incentive Scheme reserve	Shares subject to lock-up under the Share Incentive Scheme	Statutory reserves	Exchange fluctuation reserve	Retained profits	Proposed final dividends	Total	Non-controlling interests	Total equity
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009		1,343,330	5,118,263	580,210	599,699	–	1,431,820	(248,146)	5,021,369	402,999	14,249,544	934,003	15,183,547
Profit for the year		–	–	–	–	–	–	–	2,458,121	–	2,458,121	237,540	2,695,661
Exchange differences on translation of foreign operations		–	–	–	–	–	–	28,103	–	–	28,103	(19,459)	8,644
Total comprehensive income for the year		–	–	–	–	–	–	28,103	2,458,121	–	2,486,224	218,081	2,704,305
Acquisition of non-controlling interests		–	–	–	–	–	–	–	–	–	–	(7,226)	(7,226)
Effect of changes of other equity holders' interests in associates by the equity method		–	1,095	–	–	–	–	–	–	–	1,095	–	1,095
Dividends declared to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	(38,379)	(38,379)
Capital contributions by non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	22,070	22,070
Final 2008 dividend declared		–	–	–	–	–	–	–	–	(402,999)	(402,999)	–	(402,999)
Disposal of subsidiaries		–	–	–	–	–	–	–	–	–	–	(4,950)	(4,950)
Share Incentive Scheme:	38												
– Equity-settled share expense		–	–	–	299,594	–	–	–	–	–	299,594	–	299,594
– Proceeds from shares issued		85,007	692,466	–	(218,429)	(447,235)	–	–	–	–	111,809	–	111,809
Proposed final 2009 dividend	12	–	–	–	–	–	–	–	(552,425)	552,425	–	–	–
Transfer from capital reserve		402,999	(402,999)	–	–	–	–	–	–	–	–	–	–
Subsidy in investment nature		–	80,000	–	–	–	–	–	–	–	80,000	–	80,000
Transfer from retained profits		–	–	–	–	–	73,383	–	(73,383)	–	–	–	–
At 31 December 2009		1,831,336	5,488,825*	580,210	680,864*	(447,235)	1,505,203*	(220,043)*	6,853,682*	552,425	16,825,267	1,123,599	17,948,866

continued/...

Consolidated Statement of Changes in Equity (continued)

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2010

		Attributable to owners of the parent											
		Issued capital	Capital reserve	Equity component of bonds cum warrants	Share Incentive Scheme reserve	Shares subject to lock-up under the Share Incentive Scheme	Statutory reserves	Exchange fluctuation reserve	Retained profits	Proposed final dividends	Total	Non-controlling interests	Total equity
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010		1,831,336	5,488,825	580,210	680,864	(447,235)	1,505,203	(220,043)	6,853,682	552,425	16,825,267	1,123,599	17,948,866
Profit for the year		–	–	–	–	–	–	–	3,250,247	–	3,250,247	226,235	3,476,482
Exchange differences on translation of foreign operations		–	–	–	–	–	–	51,278	–	–	51,278	(9,879)	41,399
Total comprehensive income for the year		–	–	–	–	–	–	51,278	3,250,247	–	3,301,525	216,356	3,517,881
Issue of shares		79,819	3,697,155	(580,210)	–	–	–	–	–	–	3,196,764	–	3,196,764
Acquisition of non-controlling interests		–	–	–	–	–	–	–	–	–	–	(2,200)	(2,200)
Effect of changes of other equity holders' interests in associates by the equity method		–	751	–	–	–	–	–	–	–	751	–	751
Dividends declared to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	(189,134)	(189,134)
Capital contributions by non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	719,505	719,505
Final 2009 dividend declared		–	–	–	–	–	–	–	(7,936)	(552,425)	(560,361)	–	(560,361)
Share Incentive Scheme:	38												
– Equity-settled share Expense		–	–	–	158,957	–	–	–	–	–	158,957	–	158,957
– Unlocking the lock-up shares		–	377,601	–	(377,601)	170,969	–	–	–	–	170,969	–	170,969
Proposed final 2010 dividend	12	–	–	–	–	–	–	–	(841,297)	841,297	–	–	–
Transfer from capital reserve	37	955,577	(955,577)	–	–	–	–	–	–	–	–	–	–
Transfer from retained profits		–	–	–	–	–	32,309	–	(32,309)	–	–	–	–
At 31 December 2010		2,866,732	8,608,755*	–	462,220*	(276,266)	1,537,512*	(168,765)*	9,222,387*	841,297	23,093,872	1,868,126	24,961,998

* These reserve accounts comprise the consolidated reserves of approximately RMB19,662,109,000 (2009: RMB14,308,531,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000 Restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**4,360,201**	3,324,742
Adjustments for:			
Finance costs	7	**728,552**	751,744
Share of profits and losses of associates		**(44,123)**	(26,002)
Bank and other interest income	5	**(101,020)**	(110,715)
Dividend income	5	**(6,023)**	(2,100)
Loss on disposal of items of property, plant and equipment	6	**24,094**	26,692
Loss on retirement and disposal of intangible assets	6	**—**	52
Loss on disposal of subsidiaries	6	**—**	6,069
Gain on derivative financial instruments	5,6	**(90,297)**	(2,398)
Gain on deemed disposal of an associate	5	**(440,318)**	—
Depreciation	15	**867,580**	771,671
Recognition of prepaid land lease payments	16	**11,811**	38,510
Amortisation of intangible assets	17	**191,693**	142,840
Write-down/(reversal of write-down) of inventories to net realisable value	6	**(27,709)**	281,835
Impairment of trade receivables	6	**342,972**	456,105
Equity-settled share expense	6	**158,957**	299,594
		5,976,370	5,958,639
Increase in inventories		**(2,751,161)**	(628,599)
Increase in the amount due from customers for contract works		**(2,819,543)**	(3,494,486)
Increase in trade and bills receivables		**(3,114,689)**	(5,066,818)
(Increase)/decrease in long-term trade receivables		**(167,453)**	291,613
Increase in factored trade receivables		**(146,348)**	(1,211,280)
Increase in factored long-term trade receivables		**(2,004,089)**	(2,215,061)
Increase in prepayments, deposits and other receivables		**(487,716)**	(226,064)
Increase in trade and bills payables		**3,265,269**	5,553,977
Increase/(decrease) in the amount due to customers for contract works		**252,963**	(445,876)
Increase in other payables and accruals		**2,364,185**	2,854,282
Increase in provision for retirement benefits		**5,304**	1,965
Increase in bank advances on factored trade receivables		**2,150,437**	3,426,341
Cash generated from operations		**2,523,529**	4,798,633

continued/...

Consolidated Statement of Cash Flows (continued)

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000 Restated
CASH FLOWS FROM OPERATING ACTIVITIES (continued)			
Cash generated from operations		**2,523,529**	4,798,633
Interest received		**99,652**	110,173
Interest and other finance costs paid		**(622,790)**	(597,847)
Hong Kong profits tax paid		**(599)**	(7,725)
PRC taxes paid		**(872,859)**	(240,976)
Overseas taxes paid		**(268,964)**	(37,734)
Dividends paid		**(560,361)**	(402,935)
Dividends paid to non-controlling shareholders		**(69,798)**	(44,227)
Net cash flows from operating activities		**227,810**	3,577,362
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to prepaid land lease payments		**(272,290)**	(34,345)
Purchases of items of property, plant and equipment		**(1,898,014)**	(1,592,140)
Purchase of intangible assets		**(896,860)**	(427,339)
Proceeds from disposal of items of property, plant and equipment		**29,480**	1,011
Investments in associates		**(3,674)**	(248,507)
Purchases of available-for-sale investments		**(86,028)**	(2,612)
Disposal of subsidiaries		**—**	12,933
Dividend received in associates		**4,279**	3,110
Dividend received in available-for-sale investments		**6,023**	2,100
(Payment for)/proceeds from settlement of derivative financial instruments		**6,699**	(10,162)
Increase in time deposits with original maturity over three months		**(71,099)**	—
Increase in pledged bank deposits		**(467,750)**	(893,099)
Net cash flows used in investing activities		**(3,649,234)**	(3,189,050)

continued/...

Consolidated Statement of Cash Flows (continued)

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000 Restated
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**3,196,764**	–
Proceeds from the Share Incentive Scheme		**–**	24,301
Capital contribution by non-controlling shareholders		**716,255**	22,070
Acquisition of non-controlling interests		**(2,200)**	(5,144)
New bank loans		**11,946,153**	9,721,064
Repayment of bank loans		**(11,568,474)**	(7,435,235)
Net cash flows from financing activities		**4,288,498**	2,327,056
NET INCREASE IN CASH AND CASH EQUIVALENTS		**867,074**	2,715,368
Cash and cash equivalents at beginning of year		**14,075,822**	11,344,160
Effect of foreign exchange rate changes, net		**(37,797)**	16,294
CASH AND CASH EQUIVALENTS AT END OF YEAR	28	**14,905,099**	14,075,822
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Unrestricted bank balances and cash	28	**14,643,292**	14,038,754
Time deposits with original maturity of less than three months	28	**261,807**	37,068
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows		**14,905,099**	14,075,822

Statement of Financial Position

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**5,050,802**	3,986,236
Prepaid land lease payments	16	**414,036**	423,332
Intangible assets	17	**420,354**	200,108
Interests in subsidiaries	18	**3,471,441**	2,859,253
Investments in associates	20	**767,446**	327,127
Available-for-sale investments	21	**244,448**	244,448
Long-term trade receivables	24	**497,521**	336,652
Factored long-term trade receivables	25	**5,097,718**	3,093,629
Deferred tax assets	36	**447,416**	382,537
Pledged deposits	28	**1,090,086**	608,359
Total non-current assets		**17,501,268**	12,461,681
CURRENT ASSETS			
Prepaid land lease payments	16	**9,296**	9,296
Inventories	22	**5,501,368**	4,747,278
Amount due from customers for contract works	23	**12,668,254**	10,829,088
Trade and bills receivables	24	**25,482,748**	20,229,505
Factored trade receivables	25	**2,864,307**	2,727,445
Prepayments, deposits and other receivables	26	**7,168,684**	5,489,906
Derivative financial instruments	27	**23,984**	—
Pledged deposits	28	**185,710**	288,647
Cash and cash equivalents	28	**9,505,157**	9,808,228
Total current assets		**63,409,508**	54,129,393
CURRENT LIABILITIES			
Trade and bills payables	29	**34,951,859**	27,307,706
Amount due to customers for contract works	23	**1,703,293**	2,153,082
Other payables and accruals	30	**10,763,241**	8,742,566
Interest-bearing bank borrowings	31	**5,253,567**	4,593,580
Bank advances on factored trade receivables	25	**2,864,307**	2,727,445
Tax payable		**425,352**	706,739
Dividends payable		**97**	75
Total current liabilities		**55,961,716**	46,231,193
NET CURRENT ASSETS		**7,447,792**	7,898,200
TOTAL ASSETS LESS CURRENT LIABILITIES		**24,949,060**	20,359,881

continued/...

Statement of Financial Position (continued)

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

	Notes	**2010 RMB'000**	2009 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**24,949,060**	20,359,881
NON-CURRENT LIABILITIES			
Bonds cum warrants	32	**3,755,790**	3,632,681
Interest-bearing bank borrowings	31	**728,497**	1,742,512
Bank advances on factored long-term trade receivables	25	**5,097,718**	3,093,629
Financial guarantee contract	42	**3,689**	3,689
Provision for retirement benefits	33	**43,332**	38,028
Other long-term payables	34	**392,211**	255,052
Deferred tax liabilities	36	**66,048**	1,143
Total non-current liabilities		**10,087,285**	8,766,734
Net assets		**14,861,775**	11,593,147
EQUITY			
Issued capital	37	**2,866,732**	1,831,336
Shares subject to lock-up under the Share Incentive Scheme	40	**(276,266)**	(447,235)
Equity component of bonds cum warrants	32	**—**	580,210
Reserves	39(b)	**11,430,012**	9,076,411
Proposed final dividends	12	**841,297**	552,425
Total equity		**14,861,775**	11,593,147

Hou Weigui
Director

Shi Lirong
Director

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

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, in accordance with Chapter 8 "Qualifications For Listing" of the Rules Governing The Listing of Securities On The Stock Exchange of Hong Kong Limited, the controlling shareholder 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

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*
HK(IFRIC)—Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments included in Improvements to HKFRSs issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), amendments to HKAS 7 and HKAS 17 included in Improvements to HKFRSs 2009, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

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

(a) **HKFRS 3 (Revised) Business Combinations and HKAS 27 (Revised) Consolidated and Separate Financial Statements**

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes 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. Consequential amendments were made to various standards, including, but not limited 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 changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) **Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:**

- HKAS 7 Statement of Cash Flows: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- HKAS 17 Leases: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

Amendment to HK Interpretation 4 Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases is revised as a consequence of the amendment to HKAS 17 Leases included in Improvements to HKFRSs 2009. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

The Group does not have land leases in Hong Kong. The Group has reassessed its leases in Mainland China, previously classified as operating leases. The classification of leases in Mainland China remained as operating leases.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

2.3 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 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*[2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[4]
HKFRS 9	*Financial Instruments*[5]
HKFRS 12 Amendments	Amendments to HKAS 12 *Income Taxes-Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012)*
HKAS 24 (Revised)	*Related Party Disclosures*[3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*[1]
HK(IFRIC)—Int 14 Amendments	Amendments to HK(IFRIC)—Int 14 *Prepayments of a Minimum Funding Requirement*[3]
HK(IFRIC)—Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2010 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2013

Further information about those changes that are expected to affect the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2013.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. 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's policies are as follows:

(a) HKFRS 3 *Business Combinations:* Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

    In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

    The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(b) HKAS 1 *Presentation of Financial Statements:* Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) HKAS 27 *Consolidated and Separate Financial Statements:* Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

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

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture 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 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

(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.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement of financial position 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 profit or loss and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions 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. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities.

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

Associates

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

The Group's investments in associates are stated in the consolidated statement of financial position 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 profit or loss and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions 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 an impairment of the asset transferred.

The results of associates are included in the Company's statement of comprehensive income 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. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combinations from 1 January 2010 (continued)

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

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Impairment of non-financial assets

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

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

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

An assessment is made at the end of each reporting period 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 profit or loss 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.

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. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. 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.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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, computers 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 financial year end.

An item of property, plant and equipment and any significant part initially recognised 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 profit or loss 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)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently 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 financial year end.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

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 profit or loss 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.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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 profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to profit or loss 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.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. 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.

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.

The Group's financial assets include available-for-sale investments, trade and bills receivables, long-term trade receivables, factored trade receivables, pledged deposits, cash and cash equivalents, deposits and other receivables, amounts due from related companies.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in profit or loss. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss (continued)

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of comprehensive income. The loss arising from impairment is recognised in the statement of comprehensive income in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

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.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

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 when:

- the rights to receive cash flows from the asset have expired or

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

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 investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or ''prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss — is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, bank advances on factored trade receivables, interest-bearing bank borrowings, financial guarantee contracts, bonds cum warrants, receipts in advance, other payables, factoring costs payable, amounts due to the controlling shareholder and due to related companies.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Financial liabilities at fair value through profit or loss (continued)

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of comprehensive income.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. 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 end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Bonds cum warrants

The component of bonds cum warrants that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, 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 detachable 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.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

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 profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate 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 or other pricing models.

Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts to hedge its foreign currency risk. 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 of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

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.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments in respect of telecommunications system 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 an 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.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, 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 statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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 end of the reporting period 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 statement of comprehensive income.

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

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period 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 the initial recognition of goodwill or 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 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 joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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 by the end of the reporting period.

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.

Government grants

The Group received government grants primarily for the Group's contribution and commitment on research and development activities.

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 profit or loss over the expected useful life of the relevant asset by equal annual instalments.

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 exactly 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

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(f) for contracts involving multiple deliverables, where the deliverables are governed by more than one authoritative accounting standard, the Group generally evaluates 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 the 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.

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 statement of comprehensive income 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.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Defined benefit pension scheme (continued)

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 scheme, past service costs are recognised immediately.

The defined benefit liability comprises the present value of the defined benefit obligation less past service costs not yet recognised. The value of any defined benefit asset recognised 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 scheme or reductions in the future contributions to the plan.

Share-based payment transactions

The Company operates a share incentive scheme (the “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.

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. The cumulative expense recognised for equity-settled transactions at the end of each reporting period 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 profit or loss 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 equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service 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, if the original terms of the award are met. In addition, an expense is recognised for any modification, that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

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. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. 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. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of the outstanding subject shares is reflected as additional share dilution in the computation of earnings per share.

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 costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, 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.

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 recorded by the entities in the Group are initially recorded using their respective 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 end of the reporting period. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The functional currencies of certain overseas subsidiaries are currencies other than Renminbi. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income and expenses are translated into Renminbi at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, 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.

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 end of the reporting period. 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, the Group's 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, the Group's revenues may fluctuate from period to period based on the mix of solutions sold and the geographic regions in which they are sold.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Revenue recognition (continued)

When a customer arrangement involves multiple deliverables which 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.

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 involves significant judgement. For instance, the determination of whether software is more than incidental to hardware can impact on whether the hardware is accounted for based on software revenue recognition guidance or based on general revenue recognition guidance. This assessment could significantly impact the amount and timing of revenue recognition.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Revenue recognition (continued)

For elements related to customised network solutions and certain network build-outs, revenues are 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 billings 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.

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 collectability 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.

Derecognition of financial assets

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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. Significant judgement is often required when the Group has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, and estimates the extent of the Group's continuing involvement in the asset.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, 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 2010 was approximately RMB7,720,276,000 (2009: RMB6,057,574,000). The carrying amount of intangible assets as at 31 December 2010 was RMB1,582,564,000 (2009: RMB877,397,000). 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 profit or loss 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 value in use of the item of intangible assets or property, plant and equipment.

Impairment of trade receivables

The carrying amount of trade receivables as at 31 December 2010 was approximately RMB19,421,246,000 (2009: RMB16,482,076,000).

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.

Depreciation of property, plant and equipment

The Group's carrying amount of property, plant and equipment as at 31 December 2010 was approximately RMB7,720,276,000 (2009: RMB6,057,574,000). 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.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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 2010 was RMB180,796,000 (2009: RMB42,450,000). The amount of unrecognised tax losses at 31 December 2010 was RMB531,874,000 (2009: RMB423,141,000). Further details are contained in note 36 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

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

(b) The terminals segment engages in the manufacture and sale of mobile phone handsets and data card products.

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, research and development costs, impairment losses, dividend income, share of profits and losses of associates, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, pledged deposits, cash and cash equivalents, investments in a jointly-controlled entity and associates, other receivables, other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, interest-bearing bank borrowings, other payables, bonds cum warrants, tax payable, deferred tax liabilities, provision for retirement benefits and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2010	Networks RMB'000	Terminals RMB'000	Telecommunications software systems, services and other products RMB'000	Total RMB'000
Segment revenue:				
Telecommunications system contracts	41,990,133	–	6,898,968	48,889,101
Sale of goods and services	–	17,927,439	3,447,334	21,374,773
	41,990,133	17,927,439	10,346,302	70,263,874
Segment results	10,218,562	1,105,023	1,701,218	13,024,803
Bank and other interest income				101,020
Dividend income and unallocated gains				2,538,787
Corporate and other unallocated expenses				(10,619,980)
Finance costs				(728,552)
Share of profits and losses of associates				44,123
Profit before tax				4,360,201
Segment assets	36,764,820	7,898,628	9,058,794	53,722,242
Investment in associates				915,734
Investment in a jointly-controlled entity				2,255
Corporate and other unallocated assets				30,868,993
Total assets				85,509,224
Segment liabilities	10,274,691	700,294	2,531,665	13,506,650
Corporate and other unallocated liabilities				47,040,576
Total liabilities				60,547,226
Other segment information:				
Impairment losses recognised in profit or loss	188,403	80,438	46,422	315,263
Depreciation and amortisation	640,087	273,281	157,716	1,071,084
Capital expenditure	2,277,154	972,217	561,087	3,810,458

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2009	Networks RMB'000	Terminals RMB'000	Telecommunications software systems, services and other products RMB'000	Total RMB'000
Segment revenue:				
Telecommunications system contracts	39,982,316	—	4,314,626	44,296,942
Sale of goods and services	—	13,071,519	2,904,102	15,975,621
	39,982,316	13,071,519	7,218,728	60,272,563
Segment results	8,814,294	1,738,784	1,358,831	11,911,909
Bank and other interest income				110,715
Dividend income and unallocated gains				1,612,783
Corporate and other unallocated expenses				(9,584,923)
Finance costs				(751,744)
Share of profits and losses of associates				26,002
Profit before tax				3,324,742
Segment assets	31,782,376	5,513,601	5,738,245	43,034,222
Investments in associates				438,027
Investments in a jointly-controlled entity				2,255
Corporate and other unallocated assets				25,990,360
Total assets				69,464,864
Segment liabilities	8,630,920	506,969	1,558,295	10,696,184
Corporate and other unallocated liabilities				40,819,814
Total liabilities				51,515,998
Other segment information:				
Impairment losses recognised in profit or loss	489,518	160,040	88,382	737,940
Depreciation and amortisation	632,195	206,685	114,141	953,021
Capital expenditure	1,650,277	539,529	297,954	2,487,760

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2010	2009
	RMB'000	RMB'000
The PRC (place of domicile)	**32,197,530**	30,404,275
Asia (excluding the PRC)	**12,687,912**	13,198,605
Africa	**10,639,010**	6,860,602
Europe, Americas and Oceania	**14,739,422**	9,809,081
	70,263,874	60,272,563

The revenue information above is based on the location of the customers.

(b) Non-current assets

	2010	2009
	RMB'000	RMB'000
The PRC (place of domicile)	**7,576,126**	5,352,373
Asia (excluding the PRC)	**818,727**	633,843
Africa	**1,596,516**	1,436,800
Europe, Americas and Oceania	**70,276**	15,726
	10,061,645	7,438,742

Information about major customers

Two single customers individually accounted for more than 10% of the Group's consolidated revenues for 2010 in the amount of RMB19,006 million (2009: three customers accounted for more than 10% of the group's consolidated revenue which is amounted to RMB24,145 million), from which telecommunication system contract revenue of approximately RMB10,091 million (2009: RMB10,239 million) and RMB8,915 million (2009: RMB7,826 million) were recognised , respectively.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts and the value of services rendered during the year. All significant intra-group transactions have been eliminated on consolidation.

An analysis of revenue, other income and gains is as follows:

	2010 RMB'000	2009 RMB'000
Revenue		
Telecommunications system contracts#	**48,889,101**	44,296,942
Sale of goods	**17,927,439**	13,073,619
Sale of services	**3,447,334**	2,902,002
	70,263,874	60,272,563
Other income		
VAT refunds and other tax subsidies##	**1,530,782**	1,123,111
Dividend income	**6,023**	2,100
Bank and other interest income	**101,020**	110,715
Others###	**471,367**	268,310
	2,109,192	1,504,236
Gains		
Gain on deemed disposal of an associate####	**440,318**	—
Gain on derivative financial instruments	**90,297**	12,560
Exchange gain	**—**	206,702
	530,615	219,262
	2,639,807	1,723,498

\# Included in the Group's telecommunications system contracts revenue is a gain on factoring of accounts receivable to be settled by an African telecommunications operator of RMB838,604,000 (2009: RMB825,603,000). Details of the arrangement are disclosed in note 25 to the financial statements.

\## 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 some subsidiaries of the Company, pursuant to the principles of the State Council document entitled "Certain Policies to Encourage the Development of Software Enterprise and the IC Industry" and the approval reply of the state taxation authorities.

\### Others mainly represent gains on government grants, contract penalty income and miscellaneous gains.

\#### Following the listing of Nationz Technologies Inc. on Growth Enterprise Markets on 29 April 2010 by way of initial public offering, the Company's shareholding percentage in this company was changed to 20% from 26.67%. The Company still has significant influence over Nationz Technologies Inc., which remains an associate of the Company. The ownership dilution is a deemed disposal. The Company recognised a gain on the deemed disposal of RMB440,318,000 in its profit or loss for the year. The gain on such deemed disposal is computed by comparing the Company's proportionate share of net assets of Nationz Technologies Inc. before and after the listing.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2010 RMB'000	2009 RMB'000
Cost of goods and services		**44,489,594**	38,285,841
Depreciation	15	**867,580**	771,671
Amortisation of land lease payments	16	**11,811**	38,510
Amortisation of intangible assets other than deferred development costs	17	**43,168**	42,422
Research and development costs:			
Deferred development costs amortised**	17	**148,525**	100,418
Current year expenditure		**7,091,971**	5,781,583
		7,240,496	5,882,001
Loss on financial derivative instruments		**—**	10,162
Impairment of trade receivables*	24	**342,972**	456,105
Provision for warranties**	35	**154,867**	72,896
Write-down/(reversal) of inventories to net realisable value**		**(27,709)**	281,835
Minimum lease payments under operating leases on land and buildings		**476,925**	359,287
Contingent rent receivable in respect of an operating lease	44(a)	**(25,810)**	(43,587)
Auditors' remuneration		**6,991**	6,741
Staff costs (including directors' and supervisors' remuneration in note 8):			
Wages, salaries, bonuses, allowances and welfare		**9,983,311**	8,202,158
Equity-settled share expense		**158,957**	299,594
Retirement benefit scheme contributions:			
Defined benefit pension scheme	33	**6,303**	2,788
Defined contribution pension scheme		**473,293**	404,608
		10,621,864	8,909,148
Foreign exchange loss*		**179,428**	—
Loss on disposal of items of property, plant and equipment*		**24,094**	26,692
Loss on disposal of subsidiaries*		**—**	6,069
Gain on deemed disposal of an associate		**(440,318)**	—
Loss on retirement and disposal of intangible assets*		**—**	52

* The impairment of trade receivables, foreign exchange loss, loss on disposal of items of property, plant and equipment, loss on disposal of subsidiaries and loss on retirement and disposal of intangible assets are included in "Other expenses" on the face of the consolidated statement of comprehensive income.

** The provision for warranties, amortisation of deferred development costs and write-down/(reversal of write-down) of inventories to net realisable value are included in "Cost of sales" on the face of the consolidated statement of comprehensive income.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

7. FINANCE COSTS

An analysis of finance costs is as follows:

		Group	
		2010	2009
	Note	**RMB'000**	RMB'000
Interest on bank loans wholly repayable within five years		**233,209**	255,710
Interest on bonds cum warrants	32	**155,109**	150,029
Total interest expense on financial liabilities not at fair value through profit or loss		**388,318**	405,739
Other finance costs:			
Finance costs on trade receivables factored and bills discounted		**340,234**	346,005
		728,552	751,744

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	Group	
	2010	2009
	RMB'000	RMB'000
Fees	**—**	—
Other emoluments of directors and supervisors:		
Salaries, bonuses, allowances and welfare	**4,314**	3,415
Performance related bonuses*	**7,439**	10,796
Equity-settled share expense	**261**	290
Retirement benefit scheme contributions	**143**	147
	12,157	14,648

* Certain executive directors of the Company are entitled to bonus payments which are determined based on work performance.

(a) Independent non-executive directors

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

	2010	2009
	RMB'000	RMB'000
Zhu Wuxiang	**—**	58
Chen Shaohua	**—**	58
Mi Zhengkun	**17**	100
Li Jin	**44**	100
Qiao Wenjun	**—**	58
Qu Xiaohui	**120**	45
Wei Wei	**120**	45
Tan Zhenhui	**103**	—
Timothy Alexander Steinert	**76**	—
Chen Naiwei	**120**	45
	600	509

There were no other emoluments payable to the independent non-executive directors during the year (2009: Nil).

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

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 RMB'000
2010						
Executive directors:						
Yin Yimin	**—**	**429**	**500**	**—**	**15**	**944**
Shi Lirong	**—**	**508**	**1,910**	**—**	**15**	**2,433**
He Shiyou	**—**	**508**	**1,210**	**—**	**47**	**1,765**
	—	**1,445**	**3,620**	**—**	**77**	**5,142**
Non-executive directors:						
Hou Weigui	**—**	**327**	**967**	**—**	**—**	**1,294**
Wang Zongyin	**—**	**17**	**—**	**33**	**—**	**50**
Xie Weiliang	**—**	**100**	**—**	**33**	**—**	**133**
Zhang Junchao	**—**	**100**	**—**	**33**	**—**	**133**
Li Juping	**—**	**17**	**—**	**33**	**—**	**50**
Lei Fanpei	**—**	**75**	**—**	**—**	**—**	**75**
Wang Zhanchen	**—**	**83**	**—**	**—**	**—**	**83**
Dong Lianbo	**—**	**100**	**—**	**33**	**—**	**133**
	—	**2,264**	**4,587**	**165**	**77**	**7,093**
Supervisors:						
Zhang Taifeng	**—**	**327**	**967**	**—**	**—**	**1,294**
Wang Wangxi	**—**	**325**	**360**	**—**	**15**	**700**
He Xuemei	**—**	**219**	**320**	**—**	**15**	**554**
Zhao Xinyu	**—**	**91**	**366**	**48**	**7**	**512**
Zhou Huidong	**—**	**219**	**370**	**48**	**15**	**652**
Wang Yan	**—**	**—**	**—**	**—**	**—**	**—**
Qu Deqian	**—**	**—**	**—**	**—**	**—**	**—**
Xu Weiyan	**—**	**269**	**469**	**—**	**14**	**752**
	—	**1,450**	**2,852**	**96**	**66**	**4,464**
2009						
Executive directors:						
Yin Yimin	—	438	5,562	—	30	6,030
Shi Lirong	—	433	1,200	—	27	1,660
He Shiyou	—	447	1,200	—	50	1,697
	—	1,318	7,962	—	107	9,387
Non-executive directors:						
Hou Weigui	—	327	1,142	—	—	1,469
Wang Zongyin	—	100	—	58	—	158
Xie Weiliang	—	100	—	58	—	158
Zhang Junchao	—	100	—	58	—	158
Li Juping	—	100	—	58	—	158
Dong Lianbo	—	100	—	58	—	158
	—	2,145	9,104	290	107	11,646
Supervisors:						
Zhang Taifeng	—	327	1,142	—	—	1,469
Wang Wangxi	—	289	360	—	20	669
He Xuemei	—	145	190	—	20	355
Qu Deqian	—	—	—	—	—	—
Wang Yan	—	—	—	—	—	—
	—	761	1,692	—	40	2,493

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

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included no (2009: Nil) director or supervisor, details of whose remuneration are set out in note 8 above. Details of the remuneration of the five (2009: five) non-director and non-supervisor, highest paid employees for the year are as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Salaries, bonuses, allowances and welfare	**11,298**	9,289
Performance related bonuses	**6,344**	6,700
Retirement benefit scheme contributions	**2,845**	—
	20,487	15,989

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

	Number of employees	
	2010	2009
RMB2,000,001 to RMB3,000,000	**—**	3
RMB3,000,001 to RMB4,000,000	**4**	1
RMB4,000,001 to RMB5,000,000	**—**	1
RMB5,000,001 to RMB6,000,000	**—**	—
RMB6,000,001 to RMB7,000,000	**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. INCOME TAX

	2010	2009
	RMB'000	RMB'000
Group:		
Current — Hong Kong	**2,347**	4,689
Current — Mainland China	**778,452**	611,029
Current — Overseas	**29,004**	258,111
Deferred (note 36)	**73,916**	(244,748)
Total tax charge for the year	**883,719**	629,081

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

10. INCOME TAX (continued)

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the 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%.

As a hi-tech enterprise in Shenzhen, the Company has obtained the certificate as a national-grade hi-tech enterprise, with which the Company enjoyed an enterprise income tax rate of 15% for the years from 2008 to 2010.

Major subsidiaries operating in Mainland China that enjoyed preferential tax rates are as follows:

Xi'an Zhongxing New Software, recognised as a software enterprise in December 2009, 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 years pursuant to Document Cai Shui (2008) No. 1. The current year is its second profitable year.

Nanjing Zhongxingxin Software Company Limited, recognised as a software enterprise in December 2009, has been entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Document Cai Shui (2008) No. 1. The current year is its first profitable year.

Shenzhen Zhongxing ICT Company Limited, recognised as a software enterprise in September 2009, 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 years pursuant to Document Shen Guo Shui Jian Mian Bei An (2009) No. 383. The current year is its second profitable year.

Shenzhen Zhongxing Software Company Limited is an Important Software Enterprise under the National Planning Layout in 2010 and is subject to an enterprise income tax rate of 10%.

ZTEsoft Technology Company Limited, is an Important Software Enterprise under the National Planning Layout in 2010 and is subject to an enterprise income tax rate of 10%.

Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited was subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise.

Shenzhen Zhongxing Mobile Technology Company Limited was subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise registered in Shenzhen Nanshan Hi-tech Industrial Park.

ZTE Microelectronics Technology Company Limited is subject to an enterprise income tax rate of 15% for the years from 2008 to 2010 as a national-grade hi-tech enterprise.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

10. INCOME TAX (continued)

Shenzhen Lead Communication Equipment Company Limited is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise.

Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited was subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise in Shanghai Pudong New Area.

Shanghai Zhongxing Software Company Limited has been 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 years pursuant to Document Pu Shui Shi Wu Suo Jian (2007) No. 301 issued by the State Tax Bureau of Pudong New Area, Shanghai. The current year is its fourth profitable year and a 50% reduction in the enterprise income tax rate of 22% is applicable. The said company was also a national-grade hi-tech enterprise for the years from 2008 to 2010.

Nanjing Zhongxing Software Company Limited has been entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Document Suo Hui Zi Jian (2007) No. 4 issued by the State Tax Bureau of Yuhuatai District, Nanjing. The current year is its fifth profitable year and a 50% reduction in the enterprise income tax rate of 25% is applicable. The said company was also a national-grade hi-tech enterprise for the years from 2008 to 2010.

Xi'an Zhongxing Software Company Limited has been entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Document Shi Guo Shui Zhi Han (2008) No. 29 issued by the Direct Branch of the State Tax Bureau of Xi'an. The current year is its four profitable year and a 50% reduction in the enterprise income tax rate of 25% is applicable. The said company was also a national-grade hi-tech enterprise for the years from 2008 to 2010.

Xi'an Zhongxing Jing Cheng Communication Company Limited was subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise.

Wuxi Zhongxing Optoelectronics Technologies Company Limited was registered at Wuxi State's High-tech Industrial Development Zone and was subject to an enterprise income tax rate of 15% from 2008 to 2010 as a national-grade hi-tech enterprise.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

10. INCOME TAX (continued)

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

	2010		2009	
	RMB'000	**%**	RMB'000	%
Profit before tax	**4,360,201**		3,324,742	
Tax at the statutory tax rate	**1,090,052**	**25.0**	831,187	25.0
Lower tax rate for specific provinces or enacted by local authority	**(484,618)**	**(11.1)**	(392,776)	(11.8)
Adjustments in respect of current tax of previous periods	**144,850**	**3.3**	—	—
Expenses not deductible for tax	**206,219**	**4.7**	338,320	10.2
Income not subject to tax	**(135,464)**	**(3.1)**	(112,495)	(3.4)
Tax holiday	**(146,195)**	**(3.4)**	(68,832)	(2.1)
Profits and losses attributable to associates	**(8,209)**	**(0.2)**	(4,537)	(0.1)
Tax losses utilised from previous years	**(43,468)**	**(1.0)**	(15,449)	(0.5)
Tax losses of subsidiaries not recognised	**260,552**	**6.0**	53,663	1.6
Tax charge at the Group's effective rate	**883,719**	**20.2**	629,081	18.9

The share of tax attributable to associates amounting to RMB6,057,000 (2009: RMB2,256,000) is included in "Share of profits and losses of associates" on the face of the consolidated statement of comprehensive income.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2010 includes a profit of approximately RMB302,899,000 (2009: RMB721,736,000) which has been dealt with in the financial statements of the Company (note 39(b)).

12. DIVIDENDS

	2010	2009
	RMB'000	RMB'000
Proposed final — RMB0.3 (2009: RMB0.3) per ordinary share	**841,297**	552,425

Details of proposed final dividend for the year are set out in Note 51. The said profit distribution proposal is subject to the approval of the Company's shareholders at the forth coming annual general meeting.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

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

The 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 of 2,769,296,437 (2009: 2,629,037,409) in issue during the year, as adjusted to reflect the capitalisation issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. 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.

The calculations of basic and diluted earnings per share are as follows:

	2010	2009
	RMB'000	RMB'000
Earnings		
Profit for the year attributable to ordinary equity holders of the parent	**3,250,247**	2,458,121

	Number of shares	
	2010	2009
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation#	**2,769,296**	2,629,037
Shares subject to lock-up under the Share Incentive Scheme##	**61,864**	104,606
Warrants attached to bonds###	**—**	—
Adjusted weighted average number of ordinary shares in issue	**2,831,160**	2,733,643

\# During the year, 62,407,186 shares subjected to lock-up under Share Incentive Scheme (Note 40) are excluded from the calculation of basic earnings per shares.

\## 542,778 Subject Shares to be lapsed are excluded from 62,407,186 unlocking Subject Shares when calculating diluted earnings per share.

\### The warrants attached to bond were exercised in February 2010. There were no outstanding warrants as at 31 December 2010. The average market price of the ordinary shares during 2009 was less than the exercise price of the warrants, therefore, they were not considered in the calculation of diluted earnings per share for the year ended 31 December 2009.

14. DISTRIBUTION OF PROFIT

In accordance with the Company Law of the PRC and the articles of association, 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 capital, provided that the remaining balances after the capitalisation are not less than 25% of the registered capital of these companies.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

15. PROPERTY, PLANT AND EQUIPMENT

	Group					
	Buildings RMB'000	Leasehold improvements RMB'000	Machinery, computers and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2010						
At 31 December 2009 and at 1 January 2010:						
Cost	**2,312,938**	**99,148**	**4,948,012**	**315,717**	**1,332,735**	**9,008,550**
Accumulated depreciation and impairment	**(310,327)**	**(50,565)**	**(2,465,970)**	**(124,114)**	**—**	**(2,950,976)**
Net carrying amount	**2,002,611**	**48,583**	**2,482,042**	**191,603**	**1,332,735**	**6,057,574**
At 1 January 2010, net of accumulated depreciation and impairment	**2,002,611**	**48,583**	**2,482,042**	**191,603**	**1,332,735**	**6,057,574**
Additions	**106,955**	**41,021**	**977,883**	**57,961**	**1,454,837**	**2,638,657**
Disposals	**(175)**	**—**	**(55,138)**	**(3,811)**	**—**	**(59,124)**
Depreciation provided during the year	**(64,515)**	**(44,160)**	**(719,594)**	**(39,311)**	**—**	**(867,580)**
Transfers	**1,277,928**	**—**	**350,836**	**—**	**(1,628,764)**	**—**
Exchange realignments	**(1,314)**	**—**	**(34,249)**	**(1,619)**	**(12,069)**	**(49,251)**
At 31 December 2010, net of accumulated depreciation and impairment	**3,321,490**	**45,444**	**3,001,780**	**204,823**	**1,146,739**	**7,720,276**
At 31 December 2010:						
Cost	**3,695,969**	**140,168**	**5,884,514**	**354,919**	**1,146,739**	**11,222,309**
Accumulated depreciation and impairment	**(374,479)**	**(94,724)**	**(2,882,734)**	**(150,096)**	**—**	**(3,502,033)**
Net carrying amount	**3,321,490**	**45,444**	**3,001,780**	**204,823**	**1,146,739**	**7,720,276**

	Group					
	Buildings RMB'000	Leasehold improvements RMB'000	Machinery, computers and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2009						
At 31 December 2008 and at 1 January 2009:						
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
At 1 January 2009, net of accumulated depreciation and impairment	1,621,573	72,394	2,202,683	178,779	817,086	4,892,515
Additions	122,670	9,409	806,094	50,631	1,037,273	2,026,077
Disposals	(18,361)	(24,883)	(40,108)	(5,633)	—	(88,985)
Depreciation provided during the year	(66,583)	(8,337)	(664,006)	(32,745)	—	(771,671)
Transfers	343,463	—	178,161	—	(521,624)	—
Exchange realignments	(151)	—	(782)	571	—	(362)
At 31 December 2009, net of accumulated depreciation and impairment	2,002,611	48,583	2,482,042	191,603	1,332,735	6,057,574
At 31 December 2009:						
Cost	2,312,938	99,148	4,948,012	315,717	1,332,735	9,008,550
Accumulated depreciation and impairment	(310,327)	(50,565)	(2,465,970)	(124,114)	—	(2,950,976)
Net carrying amount	2,002,611	48,583	2,482,042	191,603	1,332,735	6,057,574

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Company					
	Buildings RMB'000	Leasehold improvements RMB'000	Machinery, computers and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2010						
At 31 December 2009 and at 1 January 2010:						
Cost	2,089,923	67,841	2,431,108	208,006	790,490	5,587,368
Accumulated depreciation and impairment	(279,847)	(50,564)	(1,184,757)	(85,964)	—	(1,601,132)
Net carrying amount	1,810,076	17,277	1,246,351	122,042	790,490	3,986,236
At 1 January 2010, net of accumulated depreciation and impairment	1,810,076	17,277	1,246,351	122,042	790,490	3,986,236
Additions	—	—	632,402	35,927	1,017,596	1,685,925
Disposals	—	—	(3,881)	(2,356)	—	(6,237)
Transfers to subsidiaries	—	—	—	—	(139,319)	(139,319)
Depreciation provided during the year	(60,424)	(9,053)	(385,803)	(20,523)	—	(475,803)
Transfers	825,511	—	46,341	—	(871,852)	—
At 31 December 2010, net of accumulated depreciation and impairment	2,575,163	8,224	1,535,410	135,090	796,915	5,050,802
At 31 December 2010:						
Cost	2,915,435	67,842	2,936,164	234,240	796,915	6,950,596
Accumulated depreciation and impairment	(340,272)	(59,618)	(1,400,754)	(99,150)	—	(1,899,794)
Net carrying amount	2,575,163	8,224	1,535,410	135,090	796,915	5,050,802

	Company					
	Buildings RMB'000	Leasehold improvements RMB'000	Machinery, computers and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2009						
At 31 December 2008 and at 1 January 2009:						
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
At 1 January 2009, net of accumulated depreciation and impairment	1,560,771	17,145	862,348	121,908	402,289	2,964,461
Additions	52,441	8,469	719,933	22,248	659,159	1,462,250
Disposals	(18,251)	—	(12,026)	(3,437)	—	(33,714)
Transfers to subsidiaries	—	—	(15,856)	(417)	—	(16,273)
Depreciation provided during the year	(55,843)	(8,337)	(308,048)	(18,260)	—	(390,488)
Transfers	270,958	—	—	—	(270,958)	—
At 31 December 2009, net of accumulated depreciation and impairment	1,810,076	17,277	1,246,351	122,042	790,490	3,986,236
At 31 December 2009:						
Cost	2,089,923	67,841	2,431,108	208,006	790,490	5,587,368
Accumulated depreciation and impairment	(279,847)	(50,564)	(1,184,757)	(85,964)	—	(1,601,132)
Net carrying amount	1,810,076	17,277	1,246,351	122,042	790,490	3,986,236

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

15. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2010, no houses and buildings were pledged as security for the preservation of properties subject to legal proceedings. A subsidiary of the Group pledged real estate properties with a book value of RMB3,916,000 (2009: RMB7,490,000) and machinery equipment with a book value of RMB370,285,000 (2009: RMB417,508,000), as security for long-term loans.

As at 31 December 2010, the Group was in the process of obtaining the real estate title certificates for buildings located in Nanjing, Shenzhen, Shanghai and Xi'an, the PRC, with net carrying values of approximately RMB1,078,387,000 (2009: RMB210,543,000), RMB962,421,000 (2009: RMB996,837,000), RMB358,857,000 (2009: RMB234,826,000) and RMB163,694,000 (2009: Nil), respectively.

16. PREPAID LAND LEASE PAYMENTS

	Group	
	2010	2009
	RMB'000	RMB'000
Carrying amount at 1 January	**514,751**	518,916
Additions during the year	**272,290**	34,345
Disposals	**—**	—
Recognised during the year	**(11,811)**	(38,510)
Carrying amount at 31 December	**775,230**	514,751
Current portion	**(16,425)**	(10,980)
Non-current portion	**758,805**	503,771

All the leasehold lands are held under medium term leases and are situated in Mainland China.

	Company	
	2010	2009
	RMB'000	RMB'000
Carrying amount at 1 January	**432,628**	469,646
Additions during the year	**—**	—
Recognised during the year	**(9,296)**	(37,018)
Carrying amount at 31 December	**423,332**	432,628
Current portion	**(9,296)**	(9,296)
Non-current portion	**414,036**	423,332

All the leasehold lands are held under medium term leases and are situated in Mainland China.

As at 31 December 2010, the Group was in the process of obtaining the land use right certificates of eight pieces of land located in Shenzhen, Sanya, Xi'an, Nanjing, the PRC, with an aggregate net carrying value of approximately RMB497,717,000 (2009: RMB293,917,000).

As at 31 December 2010, a subsidiary of the Group pledged its land use right with a net carrying value of RMB2,444,000 (2009: RMB4,140,000) as security for a bank loan.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

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 2010					
Cost at 1 January 2010, net of accumulated amortisation and impairment	**2,864**	**61,035**	**35,123**	**778,375**	**877,397**
Additions	**2,227**	**59,956**	**674**	**836,654**	**899,511**
Retirements and disposals	**(43)**	**(2,334)**	**(274)**	**—**	**(2,651)**
Amortisation provided during the year	**(1,868)**	**(37,948)**	**(3,352)**	**(148,525)**	**(191,693)**
At 31 December 2010	**3,180**	**80,709**	**32,171**	**1,466,504**	**1,582,564**
At 31 December 2010:					
Cost	**7,184**	**389,217**	**94,157**	**1,938,958**	**2,429,516**
Accumulated amortisation and impairment	**(4,004)**	**(308,508)**	**(61,986)**	**(472,454)**	**(846,952)**
Net carrying amount	**3,180**	**80,709**	**32,171**	**1,466,504**	**1,582,564**
31 December 2009					
Cost at 1 January 2009, net of accumulated amortisation and impairment	3,578	74,994	38,382	476,020	592,974
Additions	—	24,565	—	402,773	427,338
Retirements and disposals	—	(51)	—	—	(51)
Amortisation provided during the year	(714)	(38,473)	(3,235)	(100,418)	(142,840)
Exchange realignments	—	—	(24)	—	(24)
At 31 December 2009	2,864	61,035	35,123	778,375	877,397
At 31 December 2009:					
Cost	5,033	344,340	94,505	1,102,304	1,546,182
Accumulated amortisation and impairment	(2,169)	(283,305)	(59,382)	(323,929)	(668,785)
Net carrying amount	2,864	61,035	35,123	778,375	877,397

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

17. INTANGIBLE ASSETS (continued)

	Computer software RMB'000	Company Deferred development costs RMB'000	Total RMB'000
31 December 2010			
Cost at 1 January 2010, net of accumulated amortisation and impairment	**48,545**	**151,563**	**200,108**
Additions	**57,784**	**251,592**	**309,376**
Retirements and disposals	**(24)**	**—**	**(24)**
Amortisation provided during the year	**(36,718)**	**(52,388)**	**(89,106)**
At 31 December 2010	**69,587**	**350,767**	**420,354**
At 31 December 2010			
Cost	**357,285**	**643,529**	**1,000,814**
Accumulated amortisation and impairment	**(287,698)**	**(292,762)**	**(580,460)**
Net carrying amount	**69,587**	**350,767**	**420,354**
31 December 2009			
Cost at 1 January 2009, net of accumulated amortisation and impairment	57,088	137,914	195,002
Additions	22,961	58,494	81,455
Retirements and disposals	(26)	—	(26)
Amortisation provided during the year	(31,478)	(44,845)	(76,323)
At 31 December 2009	48,545	151,563	200,108
At 31 December 2009			
Cost	308,255	391,937	700,192
Accumulated amortisation and impairment	(259,710)	(240,374)	(500,084)
Net carrying amount	48,545	151,563	200,108

18. INTERESTS IN SUBSIDIARIES

	Company **2010** **RMB'000**	2009 RMB'000
Unlisted shares, at cost	**2,807,398**	1,948,720
Less: Impairment#	**(100,748)**	(100,748)
Loans to subsidiaries	**764,791**	1,011,281
	3,471,441	2,859,253

\# An impairment was recognised for certain unlisted investments in subsidiaries, with a carrying amount of RMB474,340,000 (before deducting the impairment loss) (2009: RMB451,557,000) because the respective subsidiaries were loss making.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

18. INTERESTS IN SUBSIDIARIES (continued)

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.

The amounts advanced to the subsidiaries included in the investments 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#(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 Company Limited#(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")#(i) (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 ("Xi'an Zhongxing New Software")#(i)(iii) (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#(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 (Hangzhou) Company Limited#(i)(iii) (中興通訊（杭州）有限責任公司)	The PRC/ Mainland China	RMB100,000,000	100	—	Telecommunications and related equipment manufacturing
ZTE Mobile Tech Company Limited#(i)(iii) (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

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

18. INTERESTS IN SUBSIDIARIES (continued)

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 (H.K.) Limited (中興通訊（香港）有限公司)	Hong Kong	HK$500,000,000	100	—	Marketing and sale of telecommunications system equipment and provision of management services
Shenzhen Zhongxing ICT Company Limited[#(i)(iii)] (深圳中興網信科技有限公司)	The PRC/ Mainland China	RMB30,000,000	80	—	Design and sales of corporate management hard/software products
ZTE Telecom India Private Limited Company Limited[##] (中興通訊印度私人有限公司)	India	INR1,246,374,597	100	—	Marketing and sale of telecommunications system equipment and provision of management services
ZTE Technology & Service Company Limited[#(i)(iii)] (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[#(i)(iii)] (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)(iii)] (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

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

(ii) These subsidiaries are registered as foreign invested enterprise under PRC law.

(iii) The statutory financial statements of the subsidiaries are not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

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.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

19. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Share of net assets	**2,255**	2,255	**—**	—
	2,255	2,255	**—**	—

The Group has no balances with its jointly-controlled entity.

Particulars of the jointly-controlled entity are as follows:

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 in 2010.

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

	2010	2009
	RMB'000	RMB'000
Share of the jointly-controlled entity's assets and liabilities		
Current assets	**2,303**	2,303
Current liabilities	**(48)**	(48)
Net assets	**2,255**	2,255

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

20. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted shares, at cost	**–**	–	**777,220**	336,901
Share of net assets	**915,734**	438,027	**–**	–
	915,734	438,027	**777,220**	336,901
Provision for impairment	**–**	–	**(9,774)**	(9,774)
	915,734	438,027	**767,446**	327,127

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.

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
Nationz Technologies Inc.#*## (國民技術股份有限公司)	The PRC/ Mainland China	RMB108,800,000	20	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	RMB22,000,000	22.73**	Development, manufacture and sale of circuits; import and export of related products and technologies
Shenzhen Smart Electronics Ltd.#* (深圳思碼特電子有限公司)	The PRC/ Mainland China	HK$30,000,000	30**	Development, manufacture and sale of telecommunications related components
ZTE Energy Co,. Ltd.#* (中興能源有限公司)	The PRC/ Mainland China	RMB1,290,000,000	23.26	Research, development and sale of biological energy and new energy

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

20. INVESTMENTS IN ASSOCIATES (continued)

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

Following the listing of Nationz Technologies Inc. on GEM on 29 April 2010 by way of initial public offering, the Company`s shareholding percentage in this company changed to 20% from 26.67%.

* Not audited by Ernst & Young, Hong Kong or another 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:

	2010	2009
	RMB'000	RMB'000
Assets	**5,081,239**	2,389,982
Liabilities	**907,601**	673,662
Revenues	**2,062,100**	1,475,731
Profit	**195,290**	69,476

21. AVAILABLE-FOR-SALE INVESTMENTS

	Group		**Company**	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted equity investments, at cost	**342,706**	253,760	**244,448**	244,448

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

As at 31 December 2010, the above unlisted equity investments with a carrying amount of RMB342,706,000 (2009: RMB253,760,000) 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.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

22. INVENTORIES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**3,578,897**	2,602,831	**1,035,430**	799,146
Work in progress	**1,252,414**	1,181,375	**531,915**	527,145
Finished goods	**2,530,441**	1,799,947	**508,235**	461,032
Contract works in progress	**4,741,918**	3,740,647	**3,425,788**	2,959,955
	12,103,670	9,324,800	**5,501,368**	4,747,278

23. TELECOMMUNICATIONS SYSTEM CONTRACTS

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amount due from customers for contract works	**14,208,039**	11,388,496	**12,668,254**	10,829,088
Amount due to customers for contract works	**(2,772,669)**	(2,519,706)	**(1,703,293)**	(2,153,082)
	11,435,370	8,868,790	**10,964,961**	8,676,006
Contract costs incurred plus recognised profits less recognised losses to date	**46,544,057**	44,563,814	**40,889,161**	39,292,188
Less: Progress billings	**(35,108,687)**	(35,695,024)	**(29,924,200)**	(30,616,182)
	11,435,370	8,868,790	**10,964,961**	8,676,006

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade and bills receivables	**21,604,193**	18,337,023	**27,690,234**	22,025,346
Impairment	**(2,182,947)**	(1,854,947)	**(1,709,965)**	(1,459,189)
	19,421,246	16,482,076	**25,980,269**	20,566,157
Current portion	**(18,853,802)**	(16,098,327)	**(25,482,748)**	(20,229,505)
Long-term portion	**567,444**	383,749	**497,521**	336,652

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

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

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' creditworthiness except for certain overseas customers. 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 end of the reporting period, based on the invoice date and net of provision, is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 6 months	**15,933,535**	13,957,684	**16,780,050**	12,805,496
7 to 12 months	**2,563,041**	2,096,148	**3,732,292**	3,103,233
1 to 2 years	**877,934**	413,241	**2,328,878**	2,995,713
2 to 3 years	**46,736**	15,003	**1,809,245**	968,709
Over 3 years	**—**	—	**1,329,804**	693,006
	19,421,246	16,482,076	**25,980,269**	20,566,157
Current portion of trade and bills receivables	**(18,853,802)**	(16,098,327)	**(25,482,748)**	(20,229,505)
Long-term portion	**567,444**	383,749	**497,521**	336,652

The movements in the provision for impairment of trade and bills receivables are as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**1,854,947**	1,702,254	**1,459,189**	1,370,103
Impairment losses recognised (note 6)	**375,612**	519,459	**267,507**	395,054
Amount write off as uncollectible	**(14,972)**	(303,412)	**(489)**	(242,851)
Impairment losses reversed (note 6)	**(32,640)**	(63,354)	**(16,242)**	(63,117)
At 31 December	**2,182,947**	1,854,947	**1,709,965**	1,459,189

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB616,067,000 (2009: RMB582,272,000) with a carrying amount before provision of 616,067,000 (2009: RMB582,272,000). The individually impaired trade receivables relate to customers that were in financial difficulties and are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

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

An aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**3,839,776**	4,583,346	**4,573,317**	3,938,943
Less than one year past due	**13,406,522**	10,823,345	**15,538,415**	11,541,159
	17,246,298	15,406,691	**20,111,732**	15,480,102

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 controlling shareholder, associates and related companies included in the above are as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Subsidiaries	**—**	—	**12,015,794**	8,515,630
The controlling shareholder	**—**	—	**—**	—
Associates	**3,977**	12,459	**3,571**	11,609
Related companies	**7,685**	—	**—**	889
	11,662	12,459	**12,019,365**	8,528,128

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

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

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

As at 31 December 2010, the Group factored trade receivables of RMB7,989,287,000 (2009: RMB5,838,850,000) to various banks for 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 statement of financial position.

In prior year, the Company entered into a telecommunications system project (the "project") with an African telecommunications operator with a total contract amount of US$1,500,000,000. 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. In 2009, two government strategic banks in the PRC have agreed to factor these promissory notes pursuant to the receivables purchase agreements (the "Agreements"), which stipulates the factoring conditions based on the future performance of the African telecommunications operator. During the financing period, the banks will charge interest to the Company and the telecommunications operator. If there is any delay in the payment by the telecommunications operator, the Company is not responsible for the related penalties. If there is default in the payment, the Company would bear the first 20% of default losses on the factored amount unless the Company breaches the Agreements or the factoring conditions are not satisfied. As at 31 December 2010, under the above arrangements, accounts receivable due from the customer amounted to RMB7,586,858,000 (2009: RMB6,082,427,000) among which RMB6,069,486,000 (2009: RMB4,865,942,000) has been derecognised from the consolidated statement of financial position as these receivables have fulfilled the derecognition conditions as stipulated in HKAS 39. An associated liability of RMB1,517,372,000 (2009: RMB1,216,485,000) has been recognised in the consolidated statement of financial position to the extent of the Company's continuing involvement.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**449,664**	355,422	**85,559**	173,408
Deposits and other receivables	**2,742,864**	2,172,179	**2,167,091**	1,644,695
Due from subsidiaries	**—**	—	**4,888,616**	2,653,269
Due from related companies	**—**	8,607	**—**	1,514
Dividends receivable	**1,875**	1,585	**27,418**	1,017,020
Interest receivable	**1,911**	—	**—**	—
	3,196,314	2,537,793	**7,168,684**	5,489,906

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 relate to receivables for whom there was no recent history of default.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

27. DERIVATIVE FINANCIAL INSTRUMENTS

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Forward currency contracts				
Assets	**123,365**	—	**23,984**	—
Liabilities	**(40,139)**	—	**—**	—

The derivative financial instruments for the Group and the Company at 31 December 2010 represented forward currency contracts, and the carrying amounts of forward currency contracts were the same as their fair values. The above transactions involving derivative financial instruments were with various well-known banks in Mainland China and Hong Kong with A- or above credit ratings.

The Group has 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 RMB83,597,000 (2009: RMB12,560,000) were recognised in profit or loss during the year.

28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**16,473,293**	15,105,167	**10,780,953**	10,705,234
Less: Pledged deposits — Non current	**(1,090,086)**	(608,359)	**(1,090,086)**	(608,359)
Pledged deposits — Current	**(407,009)**	(420,986)	**(185,710)**	(288,647)
Time deposits with original maturity over three months	**(71,099)**	—	**—**	—
Cash and cash equivalents	**14,905,099**	14,075,822	**9,505,157**	9,808,228
Time deposits with original maturity of less than three months	**(261,807)**	(37,068)	**(20,000)**	—
Unrestricted bank balances and cash	**14,643,292**	14,038,754	**9,485,157**	9,808,228

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi amounted to approximately RMB7,321,749,000 (2009: RMB6,104,435,000). 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.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

29. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 6 months	**25,302,896**	21,161,940	**34,916,850**	27,278,626
7 to 12 months	**34,558**	41,328	**5,260**	3,123
1 to 2 years	**104,584**	276,089	**4,695**	529
2 to 3 years	**22,766**	24,525	**224**	288
Over 3 years	**32,879**	27,783	**24,830**	25,140
	25,497,683	21,531,665	**34,951,859**	27,307,706

The balances due to subsidiaries, the controlling shareholder, related companies and associates included in the above are as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Subsidiaries	**—**	—	**23,143,813**	17,585,804
The controlling shareholder	**152,772**	85,566	**—**	—
Related companies	**122,967**	54,601	**79**	152
Associates	**69,613**	75,796	**—**	—
	345,352	215,963	**23,143,892**	17,585,956

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

The trade payables are non-interest-bearing and are normally settled on 180-day terms.

30. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2010	2009	**2010**	2009
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Receipts in advance		**2,744,694**	2,337,628	**2,110,666**	2,039,175
Other payables		**3,177,097**	2,096,079	**2,886,629**	1,328,913
Factoring costs payable		**112,169**	73,868	**112,169**	73,868
Accruals		**3,113,580**	2,674,698	**1,167,557**	1,248,545
Provision for warranties	35	**169,552**	102,259	**71,235**	43,600
Due to the controlling shareholder		**3,371**	308	**308**	308
Due to subsidiaries		**—**	—	**4,414,421**	4,007,768
Due to related companies		**226**	389	**256**	389
		9,320,689	7,285,229	**10,763,241**	8,742,566

The other payables are non-interest-bearing and have an average term of three months. The balances due to the controlling shareholder, subsidiaries and related companies are unsecured, interest-free and are repayable on demand.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

31. INTEREST-BEARING BANK BORROWINGS

	2010			2009		
Group	**Effective interest rate (%)**	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — unsecured	**2.00-7.00**	**2011**	**2,898,909**	1.2556-5.585	2010	2,969,640
Bank loans — unsecured	**Libor+1-2.4**	**2011**	**2,147,222**	Libor+0.5-1.5	2010	2,038,323
Bank loans — secured	**2.7-6.116**	**2011**	**618,525**	2.00-11.50	2010	1,150,223
Bank loans — secured	**Libor+1.5-2**	**2011**	**2,236,574**	Libor+2	2010	688,282
			7,901,230			6,846,468
Non-current						
Bank loans — secured	**Libor+1.5-2**	**2012-2016**	**742,670**	Libor+1.5	2015	358,071
Bank loans — secured			**—**	2	2011-2012	234,810
Bank loans — unsecured	**Libor+1-2**	**2012**	**728,497**	Libor+1-1.2	2011-2012	1,092,512
Bank loans — unsecured	**2.00**	**2012-2015**	**248,143**	3.51-4.86	2011	711,000
			1,719,310			2,396,393
			9,620,540			9,242,861

	2010			2009		
Company	**Effective interest rate (%)**	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — unsecured	**2.00-7.00**	**2011**	**1,024,000**	1.2556-4.779	2010	2,908,416
Bank loans — unsecured	**Libor+1-2.4**	**2011**	**2,147,221**	Libor+0.5-1.2	2010	1,570,486
Bank loans — secured	**Libor+1.8**	**2011**	**2,082,346**	3.875	2010	114,678
			5,253,567			4,593,580
Non-current						
Bank loans — unsecured			**—**	3.51	2011	650,000
Bank loans — unsecured	**Libor+1-2**	**2012**	**728,497**	Libor+1-1.2	2011-2012	1,092,512
			728,497			1,742,512
			5,982,064			6,336,092

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

31. INTEREST-BEARING BANK BORROWINGS (continued)

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**7,901,230**	6,846,468	**5,253,567**	4,593,580
In the second year	**1,129,625**	1,188,974	**728,497**	1,127,974
In the third to fifth years, inclusive	**333,784**	849,348	**–**	614,538
Over five years	**255,901**	358,071	**–**	–
	9,620,540	9,242,861	**5,982,064**	6,336,092

Notes:

(a) Except for bank loans of approximately RMB6,540,963,000 (2009: RMB5,578,877,000)) which are denominated in United States dollars, all the Group's and the Company's borrowings are in Renminbi and other currencies.

(b) Except for unsecured bank loans with a carrying amount of RMB3,147,052,000 (2009: RMB3,680,640,000) and secured bank loans with a carrying amount of RMB618,525,000 (2009: RMB1,385,033,000), 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	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Pledged bank deposits	**1,497,095**	1,029,345	**1,275,796**	897,006
Trade receivables	**10,300,131**	5,953,528	**10,044,371**	5,935,752
	11,797,226	6,982,873	**11,320,167**	6,832,758

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Other banks or the government	**268,143**	281,477	**–**	–
A related party	**–**	18,000	**–**	–
	268,143	299,477	**–**	–

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.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

32. BONDS CUM WARRANTS

	RMB'000
Nominal value of bonds cum warrants issued in the year	4,000,000
Equity component	(580,210)
Direct transaction costs	(38,556)
At the issuance date	3,381,234

	2010	2009
	RMB'000	RMB'000
Carrying amount at 1 January	**3,632,681**	3,514,652
Interest expense	**155,109**	150,029
Interest paid	**(32,000)**	(32,000)
Carrying amount at 31 December	**3,755,790**	3,632,681

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, and 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 the capitalisation issue during the years 2008 and 2009, the exercise price of the warrants has been adjusted to RMB42.394 and the holders of the warrants are entitled to subscribe for 0.922 A share for every warrant held.

The exercise period of warrants attached to the bonds of the Company was expired on 12 February 2010, a total of 23,348,590 warrants were exercised, accounting for 35.81% of the total number of warrants prior to the current exercise. A total of 41,851,410 warrants were not exercised and lapsed.

The bonds bear interest 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 the 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.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

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 2010 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 statement of financial position are as follows:

Group and Company

	2010	2009
	RMB'000	RMB'000
Present value of the obligations	**93,864**	91,214
Unrecognised actuarial losses	**(50,532)**	(53,186)
Net liability in the statement of financial position	**43,332**	38,028

Movements in the net liability recognised in the statement of financial position during the year are as follows:

	2010	2009
	RMB'000	RMB'000
Net liability at beginning of year	**38,028**	36,063
Benefit expenses recognised in profit or loss	**6,303**	2,788
Pension payments made	**(999)**	(823)
Net liability at end of year	**43,332**	38,028

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

	2010	2009
	RMB'000	RMB'000
(a) Discount rate	**4.00%**	4.00%

(b) The expected rates of increase in salaries ranged from 1% to 9.6% per annum, which was based on the number of years of employment.

The benefit expenses recognised in profit or loss for the year are as follows:

	2010	2009
	RMB'000	RMB'000
Interest cost on benefit obligations	**3,649**	1,982
Net actuarial losses recognised in the year	**2,654**	806
Benefit expense included in staff costs (note 6)	**6,303**	2,788

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

34. OTHER LONG-TERM PAYABLES

Group and Company

	2010 RMB'000	2009 RMB'000
Factoring costs payable	**392,211**	255,052

35. PROVISION FOR WARRANTIES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
At beginning of year	**102,259**	92,066	**43,600**	57,200
Additional provisions	**154,867**	72,896	**98,861**	29,995
Amounts utilised during the year	**(87,574)**	(62,703)	**(71,226)**	(43,595)
At end of year	**169,552**	102,259	**71,235**	43,600

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	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred tax assets and liabilities:				
At beginning of year	**639,994**	395,246	**381,394**	223,940
Deferred tax credited/(charged) to profit or loss during the year (note 10)	**(73,916)**	244,748	**(26)**	157,454
At end of year	**566,078**	639,994	**381,368**	381,394

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

36. DEFERRED TAX (continued)

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred tax assets:				
Provision against inventories	**48,458**	88,284	**22,759**	32,421
Foreseeable contract losses	**12,231**	92,439	**12,231**	92,439
Provision for warranties	**69,452**	29,428	**16,424**	13,245
Provision for retirement benefits	**6,985**	5,704	**6,500**	5,704
Tax losses	**180,796**	42,450	**156,133**	—
Overseas tax	**230,912**	250,533	**230,912**	238,728
Intangible assets	**3,235**	—	**2,457**	—
Unrealised profits arising on consolidation	**103,176**	135,080	**—**	—
	655,245	643,918	**447,416**	382,537
Deferred tax liabilities:				
Gain on deemed disposal of an associate	**(66,048)**	—	**(66,048)**	—
Gain on derivative financial instrument	**(23,119)**	—	**—**	—
Intangible assets	**—**	(3,924)	**—**	(1,143)
	(89,167)	(3,924)	**(66,048)**	(1,143)

Deferred tax assets have not been recognised in respect of the following items:

	2010	2009
	RMB'000	RMB'000
Tax losses	**531,874**	423,141

The tax losses that have not been recognised as deferred tax assets will expire as follows:

	2010	2009
	RMB'000	RMB'000
2010	**—**	21,348
2011	**6,044**	6,044
2012	**14,104**	14,104
2013	**3,650**	—
After 2013	**508,076**	381,645
	531,874	423,141

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

36. DEFERRED TAX (continued)

In accordance with the Enterprise Income Tax Law of the People's Republic of China and its Implementation Regulations, effective from 1 January 2008, a 10% (or 5% for companies incorporated in Hong Kong) withholding income tax is payable by a foreign investor in respect of dividend income derived from the profit generated by its Mainland subsidiaries after 1 January 2008. Accordingly, ZTE (H.K.) Limited, a subsidiary of the Group deemed a foreign investor, may recognise a deferred income tax liability in respect of the net profit generated by its Mainland subsidiaries after 1 January 2008 and attributable to the foreign investor, regardless of whether such Mainland subsidiaries had declared any distribution of such profit as at the end of the reporting period.

As at 31 December 2010, the Group had not recognised any deferred income tax liability in respect of tax obligations arising from the future distribution of undistributed profit of such subsidiaries, as the Group was exercising control over the dividend policy of such subsidiaries and was in the opinion that distribution in the foreseeable future of the profit generated during the relevant period was not probable. As at 31 December 2010, the total amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB1,177,844,000 (2009: RMB822,525,000).

37. ISSUED CAPITAL

	2010	2009
	RMB'000	RMB'000
Restricted shares		
Domestic natural person shares	**60,142**	66,899
Senior management shares	**6,776**	5,559
	66,918	72,458
Unrestricted shares		
RMB ordinary shares	**2,275,159**	1,467,403
Overseas listed foreign shares	**524,655**	291,475
	2,799,814	1,758,878
	2,866,732	1,831,336

On 21 January 2010, the Company completed the placing of new H shares by the Company with the allotment and issue of 58,294,800 new H shares. The register capital of the Company increased from RMB1,831,336,215 to RMB1,889,631,015.

As at the close of trading for warrants attached to bonds on 12 February 2010, a total of 23,348,590 warrants had been exercised and a total of 41,851,410 unexercised warrants were cancelled. Following the exercise of new warrants, the number of A shares increased by21,523,441 shares and the total share capital of the Company increased from 1,889,631,015 shares before the exercise to 1,911,154,456 shares.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

37. ISSUED CAPITAL (continued)

Pursuant to the resolution of the annual general meeting on 3 June 2010, the registered capital of the Company increased by capitalising the capital reserve fund of the Company. Bonus shares of 955,577,228 were allotted and issued to the Company's shareholders on the basis of 5 bonus shares for every 10 shares held by the shareholders on 8 April 2010. The register capital of the Company increased from RMB1,911,154,456 to RMB2,866,731,684.

38. SHARE INCENTIVE SCHEME

The implementation of the Phase I Share Incentive Scheme (Revised Version dated 5 February 2007) (hereinafter referred to as the "Share Incentive Scheme") commenced upon consideration and approval by shareholders at the first extraordinary general meeting of the Company for 2007 convened on 13 March 2007, after the receipt of a no-comment letter from the China Securities Regulatory Commission. The Company granted 47,980,000 Subject Shares to the Scheme Participants by way of the issue of new shares (A shares), including the grant to 3,435 Scheme Participants of Subject Share quotas with 43,182,000 shares (accounting for 90% of the Subject Share quotas under the Share Incentive Scheme, hereinafter referred to as the "First Award") and the reservation of 4,798,000 Subject Shares accounting for 10% of the Subject Share quotas under the Share Incentive Scheme. At the Twentieth Meeting of the Fourth Session of the Board of Directors held on 25 November 2008, the grant of the full amount of the reserved Subject Share quotas to 794 Scheme Participants (hereinafter referred to as the "Second Award") was considered and approved. The Scheme Participants of the Share Incentive Scheme were the directors and senior management of the Company and key staffs of the Company and its subsidiaries.

The grant price of the Share Incentive Scheme shall be the closing price of the Company's A shares as quoted on the Shenzhen Stock Exchange on the trading day immediately preceding the date of the Board Meeting at which the Share Incentive Scheme is reviewed. The price of the First Award was RMB30.05 per share. Scheme Participants shall pay the subscription amounts for the Subject Shares on the basis of the purchase of 5.2 Subject Shares for every 10 Subject Shares granted, out of which the subscription amounts for 3.8 Subject Shares shall be funded by Scheme Participants at their own cost and the subscription amounts for 1.4 Subject Shares shall be funded by the conversion of the deferred bonus that Scheme Participants would have received had they participated in the distribution of 2006 deferred bonus, calculated as a percentage of the grant price. The price of the Second Award was RMB21.28 per share. Scheme Participants shall pay the subscription amounts for the Subject Shares on the basis of the purchase of 5.2 Subject Shares for every 10 Subject Shares granted.

The Share Incentive Scheme shall be valid for five years, comprising a lock-up period of two years and an unlocking period of three years:

(1) The Lock-up Period shall last for a period of two years commencing on the date of approval of the Share Incentive Scheme by shareholders in a general meeting of the Company, during which the Subject Shares granted to Scheme Participants under the Share Incentive Scheme shall be subject to lock-up and shall not be transferable;

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

38. SHARE INCENTIVE SCHEME (continued)

(2) The Unlocking Period shall last for three years following the expiry of the Lock-up Period, during which Scheme Participants may, subject to unlocking conditions stipulated by the Share Incentive Scheme being satisfied, apply for unlocking in three tranches: the first unlocking period shall be the first year following the expiry of the Lock-up Period and the number of shares to be unlocked shall not exceed 20% of the aggregate number of Subject Shares granted; the second unlocking period shall be the second year following the expiry of the Lock-up Period and the number of shares to be unlocked shall not exceed 35% of the aggregate number of Subject Shares granted; the third unlocking period shall be the third year following the expiry of the Lock-up Period and the number of shares to be unlocked shall represent all outstanding Subject Shares.

The unlocking of Subject Shares shall be conditional upon the simultaneous fulfilment of certain conditions, including but not limited to the following:

(1) The Company's financial and accounting report for the most recent accounting year does not contain an audit report in which the certified public accountants indicate an opinion of disapproval or inability to express any opinion;

(2) The Scheme Participant has not been subject to administrative penalties by the CSRC due to material non-compliance by the Company during the past three years;

(3) The weighted average rates of return on net assets of ZTE for the years 2007, 2008 and 2009 shall be adopted as the results appraisal conditions to Scheme Participants' application for unlocking the Subject Shares in the first, second and third tranches, respectively. Such rates of return on net assets shall not be less than 10% (before or after extraordinary income/loss items, whichever is lower).

In accordance with the relevant terms of the Share Incentive Scheme, Subject Shares granted but which have lapsed in the absence of unlocking shall be repurchased and cancelled by the Company at the corresponding subscription amounts plus interest calculated at the prevailing call deposit interest rate published by the People's Bank of China.

The fair value of the subject shares was arrived at based on the market price of the Company's shares on the date of grant using the Black-Scholes model, which ranged from RMB21.28 to RMB36.81 per share. The aggregate fair value of the Subject Shares amounting to RMB1,106,794,000 is charged to profit or loss and the capital reserve as costs and expenses from the date of grant to the date on which the unlocking conditions are being fulfilled and the shares may be circulated according to the law. The Group has recognised an amount of RMB158,957,000 (2009: RMB299,594,000) at the Share Incentive Scheme expenses for the year and an aggregate amount of RMB1,058,250,000 (2009: RMB899,293,000) has been recognised in expenses as at the end of the year on an accumulative basis.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

38. SHARE INCENTIVE SCHEME (continued)

The proposals of profit distribution and capitalisation from capital reserve for 2007 were implemented on 10 July 2008, whereby 4 shares were issued for every 10 shares held. The proposals of profit distribution and capitalisation from capital reserve for 2008 were implemented on 4 June 2009, whereby 3 shares were issued for every 10 shares held. As a result, the subject share quotas of the Phase I Share Incentive Scheme was adjusted to 87,323,600 shares accordingly, representing the adjustments of the Subject Share quotas under the First Award and the Second Award to 78,591,240 shares and 8,732,360 shares, respectively. Taking into consideration the departure of or waiver of participation in the Share Incentive Scheme by certain scheme participants, it was ratified at the Twenty-sixth Meeting of the Fourth Session of the Board of Directors of the Company held on 6 July 2009 that a total subject share quota of 85,050,238 shares had been granted to 4,022 scheme participants under the Share Incentive Scheme, and the registration of such shares with China Securities Depository and Clearing Company Limited, Shenzhen Branch was completed in July 2009. The total number of issued share capital of the Company has increased by 85,006,813 shares, after deducting 43,425 subject shares which have lapsed.

In accordance with the Share Incentive Scheme, subject shares under the First Award shall be subject to a lock-up period of two years commencing on 13 March 2007 (the date on which the Share Incentive Scheme was approved by the shareholders in a general meeting of the Company). As at 12 March 2009, the lock-up period for subject shares under the First Award had expired and the unlocking conditions had been fulfilled. For details of the unlocking, please refer to note 40.

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 275 and 276 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 a 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 issue 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 incentives and rewards to certain employees of the Company and its subsidiaries.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

39. RESERVES (continued)

(b) Company

	Notes	Issued capital RMB'000	Capital reserve RMB'000	Equity component of bonds cum warrants RMB'000	Share incentive scheme reserve RMB'000	Shares subject to lock-up under the share incentive scheme RMB'000	Statutory reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividends RMB'000	Total RMB'000
At 31 December 2008 and 1 January 2009		1,343,330	5,083,939	580,210	599,699	—	769,603	(11,493)	1,996,413	402,999	10,764,700
Final 2008 dividend declared		—	—	—	—	—	—	—	—	(402,999)	(402,999)
Total comprehensive income for the year	11	—	—	—	—	—	—	(3,320)	721,736	—	718,416
Proposed final 2009 dividend	12	—	—	—	—	—	—	—	(552,425)	552,425	—
Share Incentive Scheme:	38										
— Equity-settled share expense		—	—	—	299,594	—	—	—	—	—	299,594
— Proceeds from shares issued		85,007	692,466	—	(218,429)	(447,235)	—	—	—	—	111,809
Transfer from capital reserve		402,999	(402,999)	—	—	—	—	—	—	—	—
Subsidy in investment nature		—	80,000	—	—	—	—	—	—	—	80,000
Others		—	21,627	—	—	—	—	—	—	—	21,627
Transfer from retained profits		—	—	—	—	—	73,383	—	(73,383)	—	—
At 31 December 2009 and 1 January 2010		1,831,336	5,475,033	580,210	680,864	(447,235)	842,986	(14,813)	2,092,341	552,425	11,593,147
Final 2009 dividend declared (Note 1)		—	—	—	—	—	—	—	(7,936)	(552,425)	(560,361)
Total comprehensive income for the year	11	—	—	—	—	—	—	(600)	302,899	—	302,299
Proposed final 2010 dividend	12	—	—	—	—	—	—	—	(841,297)	841,297	—
Issue of shares		79,819	3,697,155	(580,210)	—	—	—	—	—	—	3,196,764
Share Incentive Scheme:	38	—									
— Equity- settled share expense		—	—	—	158,957	—	—	—	—	—	158,957
— Proceeds from shares issued		—	377,601	—	(377,601)	170,969	—	—	—	—	170,969
Transfer from capital reserve	37	955,577	(955,577)	—	—	—	—	—	—	—	—
Transfer from retained profits		—	—	—	—	—	32,309	—	(32,309)	—	—
At 31 December 2010		2,866,732	8,594,212	—	462,220	(276,266)	875,295	(15,413)	1,513,698	841,297	14,861,775

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

39. RESERVES (continued)

(b) Company (continued)

Note 1: As at 8 April 2010, 69,737,523 Subject Shares registered under the Share Incentive Scheme that remained in lock-up. In accordance with relevant provisions of the Company's Share Incentive Scheme, Subject Shares remaining in lock-up shall not be entitled to any bonus cash distributions. Based on the assumption that the second unlocking ("Second Unlocking") of registered Subject Shares under the First Award of the Share Incentive Scheme was not completed prior to the record date for profit distribution, the number of shares entitled to bonus cash distribution under the 2009 profit distribution proposal would be 1,841,416,933 shares, and the cash dividend proposed to be paid under the 2009 profit distribution plan based on the aforesaid number of shares would amount to RMB552,425,000. On 4 June 2010, the Second Unlocking of 26,452,094 Subject Shares under the First Award of the Share Incentive Scheme was completed, and the number of restricted shares under the Share Incentive Scheme was reduced to 43,285,429 shares. On 24 June 2010, the cash dividend payment under the 2009 profit distribution plan was implemented on the basis of 1,867,869,027 shares, being the total share capital less the number of restricted shares under the Share Incentive Scheme remaining in lock-up: RMB3 for every 10 shares (before tax) in cash or a total of RMB560,361,000. As a result, there was a difference of approximately RMB7,936,000 between the actual amount of bonus cash distribution made in 2010 and the dividend amount proposed in 2009, which has been separately presented here.

40. SHARES SUBJECT TO LOCK-UP UNDER THE SHARE INCENTIVE SCHEME

In July 2009, all of the 85,006,813 Subject Shares under the Share Incentive Scheme of the Company were registered as share capital on a one-off basis. Unlocking conditions in respect of 15,269,290 shares, being 20% of the First Award had been fulfilled and 14,559,708 shares were listed on 23 July 2009. Unlocking conditions in respect of 35% of the First Award had been fulfilled and 26,452,094 shares were listed on 4 June 2010. The proposals of profit distribution and capitalisation from capital reserve for 2009 were implemented on 24 June 2010, whereby 5 shares were issued for every 10 shares held. As a result, registered Subject Shares for which unlocking conditions had not been fulfilled was adjusted to 64,928,143 shares accordingly. Unlocking conditions in respect of 20% of the Second Award had been fulfilled and 2,520,957 shares were listed on 15 December 2010. After deducting the Subject Shares under the Unlocking, there were 62,407,186 registered Subject Shares for which unlocking conditions had not been fulfilled as at 31 December 2010, among which 542,778 Subject Shares would be lapsed. In accordance with the Share Incentive Scheme and relevant legal undertakings executed by the Company and the Scheme Participants, such shares are being held under the name of the Scheme Participants, who are not entitled to any cash dividend distribution and voting rights until the unlocking conditions have been fulfilled in respect of such shares. Therefore, a subscription amount of RMB276,266,000 for such restricted shares remaining in lock-up were charged to shareholders' equity as "Shares subject to lock-up under the Share Incentive Scheme" in the statement of financial position. For details of the Share Incentive Scheme, please refer to note 38.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

41. CONTINGENT LIABILITIES

(a) At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	2010 RMB'000	2009 RMB'000
Guarantees given to banks in connection with borrowing to customers	**66,179**	66,796
Guarantees given to banks in respect of performance bonds	**7,323,976**	7,721,644
	7,390,155	7,788,440

(b) 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 RMB58,643,000). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract to demand for damages. In February 2008, the arbitration authority issued its award ruling that an indemnity of Rs. 328,040,000 (approximately RMB25,213,000) is to be paid by the Company. The Company has set aside a provision for such amount at the end of the reporting period. 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. 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 arbitration will not have any material adverse impact on the financial conditions and operating results of the Group.

(c) In April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth"), an engineering contractor of the Company, demanded the Company to increase the contract amount on the grounds that raw material prices had increased in connection with first a slowdown in work, followed later by total suspension. In September 2008, the Company initiated litigation with the Nanshan District People's Court, pleading for the revocation of the contract and court order of the evacuation of the work sites by the defendant, as well as a penalty payment for work delay in the amount of RMB24,912,000 and damages of RMB11,319,000 payable to the Company. The court handed the first trial judgement in July 2009, ruling that the contract between the Company and China Construction Fifth be revoked and a penalty payment for work delay in the amount of RMB12,817,000 be payable by China Construction Fifth. China Construction Fifth had appealed against the said judgement. As of now, court hearing for the second trial has been completed and the court has ordered trial of the case to be suspended pending final judgement of the case of China Construction Fifth Division at the Intermediate Court. In October and November 2009, the Group further instituted two complaints with the Nanshan District People's Court, demanding China Construction Fifth to undertake a penalty payment for work delay in the amount of RMB30,615,000 and the payment of RMB39,537,000, representing the amount of work payments in excess of the total contract amount. Both trials are suspended. In July 2009, China Construction Fifth initiated another litigation with the Shenzhen Intermediate People's Court, demanding the Company to make a payment of RMB75,563,000 for raw materials and staff deployment. The said cases are currently in trial. Based on the legal opinion furnished by lawyers engaged by the Company and the existing judgements and current progress of the case, 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 and no provision was made in respect of such claims in the financial statements.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

42. FINANCIAL GUARANTEE CONTRACT

The Group has provided a financial guarantee which will expire in September 2018 for an independent customer with a maximum amount of RMB50,000,000 including corresponding interest.

In accordance with HKAS 39, such financial guarantee contract is accounted for as a financial liability and subsequently measured at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

43. 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.

44. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group is entitled to share a portion of the profit generated from the telecommunications network up to year 2010 as disclosed in note 6 to the financial statements. During the year, approximately RMB25,810,000 (2009: RMB43,587,000) 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 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2010	2009
	RMB'000	RMB'000
Within one year	**449,170**	196,676
In the second to fifth years, inclusive	**1,062,877**	197,467
After five years	**325,130**	31,511
	1,837,177	425,654

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

45. COMMITMENTS

	2010 RMB'000	2009 RMB'000
Contracted, but not provided for:		
Land and buildings	**747,546**	1,240,388
Investments in associates	**76,171**	18,850
	823,717	1,259,238
Authorised, but not contracted for:		
Land and buildings	**14,227,386**	5,833,950

46. 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	2010 RMB'000	2009 RMB'000
The controlling shareholder:			
Purchase of raw materials	(a)	**376,294**	475,661
Sales of finished goods	(b)	**80**	3,295
Rental expense	(c)	**14,287**	29,961
Purchase of land and buildings	(e)	**152,900**	—
Associates:			
Purchase of raw materials	(a)	**264,763**	362,466
Sales of finished goods	(b)	**56,013**	33,243
Rental income	(g)	**190**	—
Entities controlled by key management personnel of the Group:			
Sales of finished goods	(b)	**10,803**	37,849
Rental expense	(d)	**43,996**	40,226
Corporation guarantee	(f)	**—**	18,000
Rental income	(g)	**1,659**	—
Entities controlled by the controlling shareholder:			
Purchase of raw materials	(a)	**197,509**	226,445
Sales of finished goods	(b)	**443**	8

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

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

46. RELATED PARTY TRANSACTIONS (continued)

(I) Transactions with related parties (continued)

Notes:

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

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

(c) The rental expense was charged at rates ranging from RMB40 to RMB42.5 per square metre.

(d) The rental expense was charged at rates ranging from RMB30 to RMB115 per square metre.

(e) During the year, Xi'an Zhongxing New Software purchased land and buildings from Zhongxingxin at a consideration of RMB152,900,000, based on an external valuation performed by a qualified independent property valuer in the PRC.

(f) The guarantee in respect of bank borrowing was provided by a related party at nil consideration, and it was terminated during the year 2010.

(g) The rental income was earned at RMB75 per square metre.

(II) Outstanding balances with related parties:

(i) Details of the Group's trade balances with the controlling shareholder, associates and other related parties as at the end of the reporting period 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 controlling shareholder, associates and other related parties as at the end of the reporting period are disclosed in notes 26 and 30 to the financial statements.

(III) Compensation of key management personnel of the Group

	2010	2009
	RMB'000	RMB'000
		(Restated)
Short-term employee benefits	**25,783**	29,619
Post-employment benefits	**459**	595
Equity-settled share expense	**5,908**	10,486
Total compensation paid to key management personnel	**32,150**	40,700

Included in the transactions with the Group's controlling shareholder and the entities controlled by the controlling shareholder, certain transactions amounting to approximately RMB624 million (2009: RMB735 million) constitute continuing connected transactions as defined in Chapter 14A of the Hong Kong Stock Exchange Listing Rules. For details, please refer to the section of the Annual Report headed "Material Matters (X) Significant Connected Transactions of the Group (2) Continuing connected transactions under the Hong Kong Stock Exchange Listing Rules".

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

47. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2010	**Group**			
Financial assets	**Financial assets at fair value through profit or loss RMB'000**	**Loans and receivables RMB'000**	**Available-for-sale financial assets RMB'000**	**Total RMB'000**
Available-for-sale investments	—	—	342,706	342,706
Trade and bills receivables/long-term trade receivables	—	19,421,246	—	19,421,246
Factored trade receivables/factored long-term trade receivables	—	7,989,287	—	7,989,287
Financial assets included in prepayments, deposits and other receivables	—	2,744,775	—	2,744,775
Pledged deposits	—	1,497,095	—	1,497,095
Time deposits with original maturity over three months	—	71,099	—	71,099
Cash and cash equivalents	—	14,905,099	—	14,905,099
Derivative financial instruments	123,365	—	—	123,365
	123,365	46,628,601	342,706	47,094,672

Financial liabilities	**Financial liability at fair value through profit or loss RMB'000**	**Financial liabilities at amortised cost RMB'000**	**Other financial liabilities RMB'000**	**Total RMB'000**
Trade and bills payables	—	25,497,683	—	25,497,683
Bank advances on factored trade receivables/ bank advances on factored long-term trade receivables	—	7,989,287	—	7,989,287
Financial liabilities included in other payables and accruals	—	3,292,863	—	3,292,863
Interest-bearing bank borrowings	—	9,620,540	—	9,620,540
Financial guarantee contract	—	—	3,689	3,689
Bonds cum warrants	—	3,755,790	—	3,755,790
Other long-term payables	—	392,211	—	392,211
Derivative financial instruments	40,139	—	—	40,139
	40,139	50,548,374	3,689	50,592,202

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

47. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2009		Group	
Financial assets	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000
Available-for-sale investments	—	253,760	253,760
Trade and bills receivables/long-term trade receivables	16,482,076	—	16,482,076
Factored trade receivables/factored long-term trade receivables	5,838,850	—	5,838,850
Financial assets included in prepayments, deposits and other receivables	2,180,786	—	2,180,786
Pledged deposits	1,029,345	—	1,029,345
Cash and cash equivalents	14,075,822	—	14,075,822
	39,606,879	253,760	39,860,639

Financial liabilities	Financial liabilities at amortised cost	Other financial liabilities	Total
	RMB'000	RMB'000	RMB'000
Trade and bills payables	21,531,665	—	21,531,665
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	5,838,850	—	5,838,850
Financial liabilities included in other payables and accruals	2,170,644	—	2,170,644
Interest-bearing bank borrowings	9,242,861	—	9,242,861
Financial guarantee contract	—	3,689	3,689
Bonds cum warrants	3,632,681	—	3,632,681
Other long-term payables	255,052	—	255,052
	42,671,753	3,689	42,675,442

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

47. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2010 Financial assets	Loans and receivables RMB'000	Company Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	244,448	244,448
Trade and bills receivables/long-term trade receivables	25,980,269	—	25,980,269
Factored trade receivables/factored long-term trade receivables	7,962,025	—	7,962,025
Financial assets included in prepayments, deposits and other receivables	7,055,707	—	7,055,707
Pledged deposits	1,275,796	—	1,275,796
Cash and cash equivalents	9,505,157	—	9,505,157
Derivative financial instruments	—	23,984	23,984
	51,778,954	268,432	52,047,386

Financial liabilities	Financial liabilities at amortised cost RMB'000	Other financial liabilities RMB'000	Total RMB'000
Trade and bills payables	34,951,859	—	34,951,859
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	7,962,025	—	7,962,025
Financial liabilities included in other payables and accruals	7,413,783	—	7,413,783
Interest-bearing bank borrowings	5,982,064	—	5,982,064
Financial guarantee contract	—	3,689	3,689
Bonds cum warrants	3,755,790	—	3,755,790
Other long-term payables	392,211	—	392,211
	60,457,732	3,689	60,461,421

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

47. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2009	Company		
Financial assets	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	244,448	244,448
Trade and bills receivables/long-term trade receivables	20,566,157	—	20,566,157
Factored trade receivables/factored long-term trade receivables	5,821,074	—	5,821,074
Financial assets included in prepayments, deposits and other receivables	4,299,478	—	4,299,478
Pledged deposits	897,006	—	897,006
Cash and cash equivalents	9,808,228	—	9,808,228
	41,391,943	244,448	41,636,391

Financial liabilities	Financial liabilities at amortised cost RMB'000	Other financial liabilities RMB'000	Total RMB'000
Trade and bills payables	27,307,706	—	27,307,706
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	5,821,074	—	5,821,074
Financial liabilities included in other payables and accruals	5,411,246	—	5,411,246
Interest-bearing bank borrowings	6,336,092	—	6,336,092
Financial guarantee contract	—	3,689	3,689
Bonds cum warrants	3,632,681	—	3,632,681
Other long-term payables	255,052	—	255,052
	48,763,851	3,689	48,767,540

48. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts of the Group's and the Company's financial instruments approximate to their fair values.

The fair values of the financial assets and liabilities are included in the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the cash and cash equivalents, the current portion of pledged deposits, trade receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to subsidiaries, approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the non-current portion of pledged deposits, loans to associates, finance lease payables, interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities. The fair value of the liability portion of the convertible bonds is estimated using an equivalent market interest rate for a similar convertible bond.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with A- or above credit ratings. Derivative financial instruments, including forward currency contracts, are measured using valuation techniques similar to forward pricing, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates. The carrying amounts of forward currency contracts are the same as their fair values.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

48. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Fair value hierarchy (continued)

Assets measured at fair value:

Group
As at 31 December 2010

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative financial instruments	123,365	–	–	123,365
	123,365	–	–	123,365

As at 31 December 2009

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative financial instruments	–	–	–	–
	–	–	–	–

Company
As at 31 December 2010

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative financial instruments	23,984	–	–	23,984
	23,984	–	–	23,984

As at 31 December 2009

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative financial instruments	–	–	–	–
	–	–	–	–

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2009: Nil).

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

48. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value:

Group
As at 31 December 2010

	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Derivative financial instruments	**(40,139)**	**—**	**—**	**(40,139)**
	(40,139)	**—**	**—**	**(40,139)**

As at 31 December 2009

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Derivative financial instruments	—	—	—	—
	—	—	—	—

Company
As at 31 December 2010/2009

	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Derivative financial instruments	—	—	—	—
	—	—	—	—

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2009: Nil).

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Interest rate risk

At 31 December 2010, the bank loans of the Group and the Company included 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 2010, approximately 39% (2009: 55%) of the Group's interest-bearing borrowings bore interest at fixed rates.

Most 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 RMB14.7 million and RMB9.9 million for the years ended 31 December 2010 and 2009, 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 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 on business due to exchange rate fluctuation.

The following table demonstrates the sensitivity at the end of the reporting period 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

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in profit before tax
	%	RMB'000
2010		
If RMB weakens against USD	**3%**	**199,750**
If RMB strengthens against USD	**–3%**	**(199,750)**
If RMB weakens against EUR	**5%**	**123,964**
If RMB strengthens against EUR	**–5%**	**(123,964)**
2009		
If RMB weakens against USD	+3%	(60,243)
If RMB strengthens against USD	–3%	60,243
If RMB weakens against EUR	+5%	106,988
If RMB strengthens against EUR	–5%	(106,988)

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 and other receivables, 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 analysis, by counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 24 to the financial statements.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

49. 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 borrowings, all borrowings of the Group mature in less than one year.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

2010	Group					
	On demand RMB'000	Within 1 year RMB'000	1–2 years RMB'000	2–3 years RMB'000	Over 3 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	–	8,076,234	1,154,451	176,695	466,878	9,874,258
Trade and bills payables	15,441,206	10,056,477	–	–	–	25,497,683
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	–	3,048,068	1,921,016	1,285,960	2,079,086	8,334,130
Other payables	3,180,694	112,169	–	–	–	3,292,863
Bonds cum warrants	–	32,000	32,000	4,032,000	–	4,096,000
Other long-term payables	–	–	88,947	75,604	334,944	499,495
Derivative financial instruments	–	40,139	–	–	–	40,139
Financial guarantee contract	69,868	–	–	–	–	69,868
	18,691,768	21,365,087	3,196,414	5,570,259	2,880,908	51,704,436

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

2009	Group					
	On demand RMB'000	Within 1 year RMB'000	1–2 years RMB'000	2–3 years RMB'000	Over 3 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	—	7,142,977	1,250,739	875,666	366,967	9,636,349
Trade and bills payables	13,046,804	8,484,861	—	—	—	21,531,665
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	—	3,070,494	1,412,716	440,090	1,704,547	6,627,847
Other payables	2,096,776	73,868	—	—	—	2,170,644
Bonds cum warrants	—	32,000	32,000	32,000	4,032,000	4,128,000
Other long-term payables	—	—	69,981	48,127	228,532	346,640
Financial guarantee contract	70,485	—	—	—	—	70,485
	15,214,065	18,804,200	2,765,436	1,395,883	6,332,046	44,511,630

Capital management

The primary objectives of the Group's capital management are 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 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 2010 and 31 December 2009.

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 end of the reporting periods were as follows:

	Group	
	2010 RMB'000	2009 RMB'000
Interest-bearing bank borrowings	**9,620,540**	9,242,861
Total equity	**24,961,998**	17,948,866
Total equity and interest-bearing bank borrowings	**34,582,538**	27,191,727
Gearing ratio	**28%**	34%

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

50. MAJOR NON-CASH TRANSACTIONS

During the year, the acquisition of property, plant and equipment of RMB740,643,000 (2009:RMB433,937,000) is by assuming directly related liabilities.

51. EVENTS AFTER THE REPORTING PERIOD

Pursuant to the profit distribution proposal recommended by the Board, the Company will pay a cash dividend of RMB3 (before tax) for every 10 shares held on the basis of the total share capital of the Company as at 17 March 2011 less the number of restricted shares remaining in lock-up under the Share Incentive Scheme and the number of restricted shares that may be repurchased and cancelled in accordance with the implementation of the Share Incentive Scheme as at the A share record date for the purpose of the 2010 profit distribution (the "Record Date"), and will also issue 2 bonus shares for every 10 shares held to shareholders whose name appear in the register as at the Record Date through an increase in registered capital by way of capitalisation of capital reserves. In accordance with relevant provisions of the Share Incentive Scheme, application will be made for the third unlocking of 45% of the Subject Shares granted, and restricted shares remaining in lock-up shall not be entitled to the cash dividend. As at 17 March 2011, 62,407,186 restricted shares remained in lock-up. The number of shares entitled to the cash dividend under the 2010 profit distribution proposal will be 2,804,324,498 shares in case the third unlocking is not completed by the Record Date, or a maximum of 2,856,004,914 shares in case the third unlocking is completed by the Record Date. The said profit distribution proposal is subject to approval by the annual general meeting of the Company.

52. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

53. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 March 2011.

Documents Available for Inspection

1. Text of the 2010 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 2010 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 accountants' firm and duly signed under the hand and seal of the certified public accountants;

4. Original copies of all of the Company's 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

18 March 2011